

Explanatory Forward

NZICA Professional and Ethical Standards



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Table of Contents

Table of Contents.....	3
1. Introduction.....	4
2. Authority.....	4
3. Member obligations	5
4. NZICA Professional and Ethical Standards	5
5. XRB Pronouncements.....	7
6. Pronouncements of other Professional or Standard Setting Bodies	9
Glossary	10
<i>Conformity with International and Australian Standards</i>	13
Appendix 1: Structure of NZ professional standards	14

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1. Introduction

- 1.1 The purpose of this explanatory forward is to:
- explain the regulatory obligations of New Zealand Institute of Chartered Accountants (NZICA) to maintain professional and ethical standards (professional standards).
 - explain *members'* obligations to comply with NZICA *professional standards* and pronouncements issued by the External Reporting Board (XRB).
 - describe the structure of NZICA's *professional standards*.
 - explain the relationship between NZICA's *professional standards* and pronouncements issued by the XRB and other regulatory and professional bodies.
- 1.2 Terms defined for the purposes of this explanatory forward are defined in the glossary to this document.

2. Authority

- 2.1 NZICA regulates Chartered Accountants Australia and New Zealand (CA ANZ) *members* in New Zealand under the New Zealand Institute of Chartered Accountants Act 1996 (NZICA Act 1996) and the terms of the amalgamation agreement between Institute of Chartered Accountants in Australia and NZICA.

NZICA Act 1996

- 2.2 Section 5A of the NZICA Act 1996 requires NZICA to maintain, monitor compliance with and enforce professional and ethical standards including the Code of Ethics.

Section 7 of the NZICA Act 1996 requires NZICA to have a Code of Ethics that governs the professional conduct of its *members*, and for that Code of Ethics to be prescribed by the New Zealand Regulatory Board (NZRB). The NZICA Act states, in section 8, that the Code of Ethics is secondary legislation for the purposes of the Legislation Act 2019. This means that the Code of Ethics must be tabled in Parliament and can be disallowed by Parliament.

Due process and working procedures

- 2.3 For information on the current due process and working procedures of the NZRB for reviewing and developing NZICA *professional standards* refer [NZICA Professional and Ethical Standards: Due Process and Working Procedures](#).

3. Member obligations¹

CA ANZ By-laws / NZICA Rules

- 3.1 CA ANZ *By-law* 38A and Rule 4 of the *NZICA Rules* require CA ANZ members resident in New Zealand to (amongst other things) comply with the NZICA Code of Ethics, any standards or pronouncements issued by NZICA, the *XRB*, the New Zealand Auditing and Assurance Standards Board (NZAuASB), and the New Zealand Accounting Standards Board (NZASB) (or their successor entities).

4. NZICA Professional and Ethical Standards

Structure

- 4.1 NZICA *professional standards* comprise:
- a) Code of Ethics (the Code);
 - b) Standards; and
 - c) Guidelines
- 4.2 Diagrammatic presentation of the structure of NZICA *professional standards* issued by NZRB, is contained in Appendix 1. Appendix 1 also provides a diagrammatic presentation of how the *New Zealand auditing and assurance standards* promulgated by the NZAuASB interact with the *professional standards* issued by the NZRB - see further explanation below.
- a) Code of Ethics**
- 4.3 The *Code* prescribes:
- the *fundamental principles* that *members* must apply to any business or *professional activity*;
 - a framework that *members* must use to identify, evaluate and address threats to the *fundamental principles*; and
 - how the *conceptual framework* must be applied to particular issues or in particular situations.
- b) Standards**
- 4.4 Standards are designed to promote competent, professional and ethical practice for the particular issue(s) or situation(s) it addresses. They expand on the application of the *Code* to those issue(s) or situation(s) and prescribe other additional professional requirements for those issues(s) or situation(s).

¹ Members resident or practising in New Zealand also have other obligations under the CA ANZ By-laws and the CA ANZ regulations. This document focuses on member obligations to comply with the NZICA rules and professional standards so does not include discussion of these other obligations. For further details refer to the members handbook on the CA ANZ website <https://www.charteredaccountantsanz.com/>

c) Guidelines

- 4.5 Guidelines generally provide *members* with interpretative guidance on implementing the *Code* and/or the Standards. Guidelines contain material that can be used by *members* to improve knowledge and understanding of requirements, basic principles and essential procedures. This material will often be of a more specific nature than that contained in the *Code* or the Standards and may not be applicable to every situation. However, the material should be considered indicative of what is expected of *members* to meet the requirements of the *Code* and/or the Standards. Guidelines do not establish new requirements or alter the requirements of the *Code* or a Standard.

Professional Judgement

- 4.6 *Members* are required to exercise *professional judgement* in applying the *professional standards*. More specifically *members* are required to be guided not merely by the words but also by the spirit of the *professional standards*.

Laws and regulations

- 4.7 The *professional standards* are not intended to detract from any responsibilities that may be imposed on *members* by law or regulation.

Drafting conventions

- 4.8 Drafting conventions for NZICA *professional standards* change from time to time. As a consequence, **it is important that *members* read each *professional standard* carefully to determine the exact convention used for that *professional standard***. This section of the explanatory forward gives a general overview only.
- 4.9 Mandatory requirements and explanatory are generally shown in separate paragraphs.
- 4.10 Paragraphs containing mandatory requirements may be denoted with an R (but not in older *professional standards*) and are generally shown in bold black type lettering.
- 4.11 Paragraphs containing application material (or explanatory guidance) may be designated with the letter “A” (but not in older *professional standards*) and shown in normal grey type. Application material (or explanatory paragraphs) provides explanations, context, matters the *member* might consider, suggested procedures the *member* might perform, examples of those procedures and other guidance in respect to a requirement(s) or in the context of the issue or situation being addressed
- 4.12 The word ‘shall’ (or ‘must’ in older *professional standards*) is used within mandatory requirements paragraphs to denote the obligations a *member* is required to comply with.
- 4.13 The words ‘might’ or ‘should’ are used in application (or guidance) material to denote matters that *members* have a professional obligation to consider when complying with a requirement, or, in otherwise, performing a relevant service or activity. In making the determination whether to follow the material denoted as ‘might’/‘should’ or not, the *member* must consider the specific circumstances of the issue or situation they are addressing and exercise *professional judgement* to determine whether the guidance is relevant and applicable in the circumstances. It is possible that in certain circumstances the *member* will be able to comply with the requirement or achieve the objectives of the guidance by undertaking alternative procedures rather than the recommended procedures in the *professional standards* or in other circumstances the guidance may not be relevant. Where a *member* determines that it is appropriate to undertake alternative

procedures or not to follow guidance, the *member* should be prepared to be able to justify their actions to the *client*, employer, NZICA or any relevant regulator.

- 4.14 The word ‘may’ might be used to denote permission to take a particular action or to denote a possible action depending on the context in which it has been used in a particular *professional standard*.
- 4.15 Terms that have been defined for the purposes of a *professional standard* are generally defined in the Glossary to that standard (or, in older standards, in the ‘definitions’ section of the *professional standard*) and may be denoted in the body of the standard in *italics*. Further, definitions that may be applicable to the situation may also be found in the glossary to the *Code* or the glossary to this explanatory forward.
- 4.16 All references to *professional standards*, other organisations and their pronouncements, and laws and regulations are references to those documents or bodies as amended from time to time.
- 4.17 Unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

5. XRB Pronouncements

Authority

- 5.1 The *XRB* is an independent Crown Entity responsible for accounting and auditing & assurance standards in New Zealand. The *XRB* was originally established under section 22 of the Financial Reporting Act 1993, with continued existence under section 12 of the Financial Reporting Act 2013. The *XRB* is also subject to the Crown Entities Act 2004.

Accounting Standards

- 5.2 The *XRB* is responsible for setting financial reporting standards for the purpose of any enactment that requires financial statements (usually *general-purpose financial statements*) to be prepared in accordance with *New Zealand accounting standards* (including *Generally Accepted Accounting Practice*). These standards are usually promulgated by the *NZASB* of the *XRB*.

New Zealand Accounting Standards Framework

- 5.3 [XRB A1 Application of the accounting standards framework](#) provides a comprehensive overview of the financial reporting requirements for both for-profit and *public benefit entities* (including not-for-profit entities). *Members* are required to be familiar with these requirements and comply with them as appropriate².
- 5.4 Most New Zealand-based for-profit small to medium-sized entities have no legal requirement to comply with the *New Zealand accounting standards framework*. Instead, these entities are usually only required to prepare financial reports for compliance purposes only i.e. *special purpose financial statements* for users such as a governance body, the Inland Revenue

² Subsection 113 of the *Code*

Department (IRD) or a lending institution, such as a bank. However, these entities may voluntarily adopt the *New Zealand accounting standards framework*.

Special purpose financial statements

- 5.5 All *members* who are involved in preparing and presenting *special purpose financial statements* are required to ensure those *special purpose financial statements* comply with the *applicable financial reporting framework* adopted by *those charged with governance* for the purposes of compiling those *financial statements*.³
- 5.6 Common examples of *special purpose frameworks* include [A Special Purpose Financial Reporting Framework for use by For-Profit Entities](#) issued by CA ANZ (a *fair presentation framework*) or the minimum financial reporting requirements for companies for tax purposes specified by [Tax Administration \(Financial Statements\) Order 2014](#) (a *compliance framework*).
- 5.7 Except where *special purpose financial statements* are prepared solely for internal purposes, the *special purpose financial statements* should (amongst other things) be accompanied by a report that identifies: that the *financial statements* are *special purpose financial statements*; the purpose for which they have been prepared; the *applicable financial reporting framework* adopted by *those charged with governance*; and the significant accounting policies adopted in the presentation of the *special purpose financial statements*.⁴

Auditing and Assurance Standards

- 5.8 The *XRB* is also responsible for *New Zealand auditing and assurance standards* (including professional and ethical standards and *related services* standards) for *assurance practitioners* in New Zealand. These standards are usually promulgated by the *NZAuASB* of the *XRB*.
- 5.9 [XRB Au 1 Application of Auditing and Assurance Standards](#) provides a comprehensive overview of the standards that *assurance practitioners* are required to apply when conducting an *assurance engagement* or *related services*.
- 5.10 All *members* who perform *audits*, *reviews*, or other *assurance engagements* or *related services* (including on a voluntary and/or pro-bono basis) are required to comply with *New Zealand auditing and assurance standards*⁵ except where required to do otherwise by relevant laws or regulations.

³ Section 220 of the *Code* provides further requirements and application material regarding the preparation and presentation of information.

⁴ SES-2: *Compilation of Financial Information* provides further requirements and application material regarding the compilation of financial information by a *member in public practice* including the contents of the *member's* report

⁵ The *XRB's* (and *NZAuASB's*) legislative mandate is restricted to standards relating to use in *assurance engagements* and *related services* required by statute. However, in September 2011, the Council of NZICA (the predecessor of the NZRB) approved a pronouncement that made it a requirement for all *members* providing assurance services to adhere to standards promulgated by the *NZAuASB*. This requirement has been further reinforced by the subsequent wording of *CA ANZ By-law* 38A and Rule 4 of the *NZICA Rules*.

6. Pronouncements of other Professional or Standard Setting Bodies

Authority

- 6.1 Paragraph NZ R113.1(b) of the *Code* requires every *member* to comply with *technical and professional standards* and relevant laws and regulations. *Technical and professional standards* is defined to include “... any other standards or authoritative guidance applicable to the task or engagement.”⁶
- 6.2 When conducting certain types of *professional activities* (in particular, *professional activities* for which NZICA or XRB has not yet promulgated (or may not promulgate) a professional standard), *members* are required to be aware of standards or authoritative guidance issued by other professional or standard setting bodies and apply them when applicable to the task or engagement.

Other bodies

- 6.3 Examples of other professional and standard setting bodies include, but are not limited to: Restructuring, Insolvency and Turnaround Association of New Zealand Incorporated (RITANZ); International Valuation Standards Committee (IVSC); Institute of Internal Auditors (IIA); Association of Certified Fraud Examiners (ACFE); International Integrated Reporting Council (IIRC); Accounting Professional & Ethical Standards Board (APESB); etc.
- 6.4 In this context, other professional and standard setting bodies do not include statutory bodies whose pronouncements *members* are otherwise required to comply with in accordance with laws and regulations.

Inconsistencies

- 6.5 In the event that there are inconsistencies between these other standards or authoritative guidance and NZICA *professional standards*, the *member* is required to comply with NZICA *professional standards*.

⁶ This definition is also consistent with *member* obligations under CA ANZ By-law 38A and Rule 4 of the NZICA Rules.

Glossary

Defined terms are shown in the body of the explanatory forward in *italics*.

For the purpose of this explanatory forward and where Standards and Guidelines are otherwise silent:

Applicable Financial Reporting Framework - the financial reporting framework adopted by *those charged with governance*, in the preparation of the financial information that is acceptable in the view of the entity and the objective of the financial information, or that is required by law or regulation. The financial reporting framework may be a *general-purpose framework* or a *special purpose framework*.

Assurance engagement - is defined in the Glossary to the *Code*.

Assurance practitioner - is defined in the Glossary to the *Code*.

Audit engagement - is defined in the Glossary to the *Code*.

CA ANZ By-laws – the By-laws of Chartered Accountants Australia and New Zealand ABN 50 084 642 571

Client - an individual, firm, entity or organisation to whom or to which *professional activities* are provided by a *member in public practice* in respect to *engagements* of either a recurring or demand nature.

Code - [NZICA Code of Ethics](#) issued by the New Zealand Regulatory Board of the New Zealand Institute of Chartered Accountants and delivered to the Registrar under section 7 of the New Zealand Institute of Chartered Accountants Act 1996.

Compliance Framework - financial reporting framework that requires compliance with the requirements of the *applicable financial reporting framework* but does not contain the acknowledgements in respect of a fair value presentation framework.

Engagement - an agreement, whether written or otherwise, between a *member in public practice* and a *client* relating to the provision of *professional services* by a *member in public practice*.

Fair presentation framework - a financial reporting framework that requires compliance with the requirements of the framework and:

- a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the *financial statements*, it may be necessary for *those charged with governance* to provide disclosures beyond those specifically required by the framework; or
- b) Acknowledges explicitly that it may be necessary for *those charged with governance* to depart from a requirement of the framework to achieve fair presentation of the *financial statements*. Such departures are expected to be necessary only in extremely rare circumstances.

Financial statements - is defined in the Glossary to the *Code*.

Generally Accepted Accounting Practice – is defined in section 12 of the Financial Reporting Act 2013 for *reporting entities* that are required by legislation to comply with “generally accepted

accounting practice”. Otherwise, it is where the report, statements or other information complies with an *applicable financial reporting framework*.

General Purpose Financial Statements - *financial statements* prepared in accordance with a *general-purpose framework*.

General Purpose Framework - a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a *fair presentation framework* (for example, GAAP standards issued by the *XRB*) or a *compliance framework* (for example, Tier 4 PBE standards issued by *XRB*).

Member^{7 8 9 10} - An individual who is a Member of the New Zealand Institute of Chartered Accountants in accordance with the *NZICA Rules*.

Members in public practice – is defined in the Glossary to the *Code*.

New Zealand Accounting Standards - the accounting standards, as described in [A1 Application of Accounting Standards](#), promulgated by the *NZASB*.

New Zealand Auditing and Assurance Standards - the auditing and assurance standards, as described in [Au1 Application of Auditing and Assurance Standards](#), promulgated by the *NZAuASB*.

New Zealand Accounting Standards Framework - the framework that uses *New Zealand Accounting Standards* as the *applicable financial reporting framework*.

NZASB - the New Zealand Accounting Standards Board which has delegated authority from the *XRB* Board to develop and issue *New Zealand accounting standards*.

NZAuASB - the New Zealand Auditing and Assurance Standards Board which has delegated authority from the *XRB* Board to develop and issue *New Zealand auditing and assurance standards*, including professional and ethical standards for *assurance practitioners*.

NZICA Rules – The Rules of the New Zealand Institute of Chartered Accountants delivered to the Registrar under Section 6 of the New Zealand Institute of Chartered Accountants Act 1996.

Professional standards - professional and ethical standards issued by New Zealand Regulatory Board of the New Zealand Institute of Chartered Accountants.

Professional activities – is defined in the Glossary to the *Code*.

⁷ An insolvency practitioner who is licensed by NZICA but is not a *Member* of NZICA is also required to comply with this standard as if they were a *Member*. This is in accordance with the Practitioner Compliance Agreement the insolvency practitioner entered into with NZICA.

⁸ A qualified statutory accountant who is recognised by NZICA in accordance with sections 36S and 36T of the Financial Reporting Act 2013 is also required to comply with this standard as if they were a *Member*. This is in accordance with the Qualified Statutory Accountants Compliance Agreement the qualified statutory accountant entered into with NZICA.

⁹ A non-member principal who is permitted to practise with *Members* pursuant to Appendix IV, Rule 3.1 of the *NZICA Rules* is also required to comply with this standard as if they were a *Member*. This is in accordance with the Non-member Principal Compliance Agreement the non-member principal entered into with NZICA.

¹⁰ A member of CA ANZ who does not reside in New Zealand but who practises the profession of accountancy in New Zealand is also required to comply with this standard pursuant to Rule 3.6 of the *NZICA Rules* and By-law 38A of the *CA ANZ By-laws*.

Professional services – is defined in the Glossary to the *Code*.

Public benefit entity – a *reporting entity* whose primary objective is to provide goods or services for community or social benefit and where any entity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

Reporting Entity - an entity that is required by law or regulation to produce financial statements as defined by section 6 of the Financial Reporting Act 2013.

Related Services – is defined in the Glossary to the *Code*.

Review engagement – is defined in the Glossary to the *Code*.

Special purpose financial Statements - *financial statements* prepared in accordance with a *special purpose framework*.

Special Purpose Framework - a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a *fair presentation framework* or a *compliance framework*.

Those charged with governance – is defined in the Glossary to the *Code*.

XRB means the External Reporting Board which is an independent Crown Entity originally established under section 22 of the Financial Reporting Act 1993, with continued existence under section 12 of the Financial Reporting Act 2013.

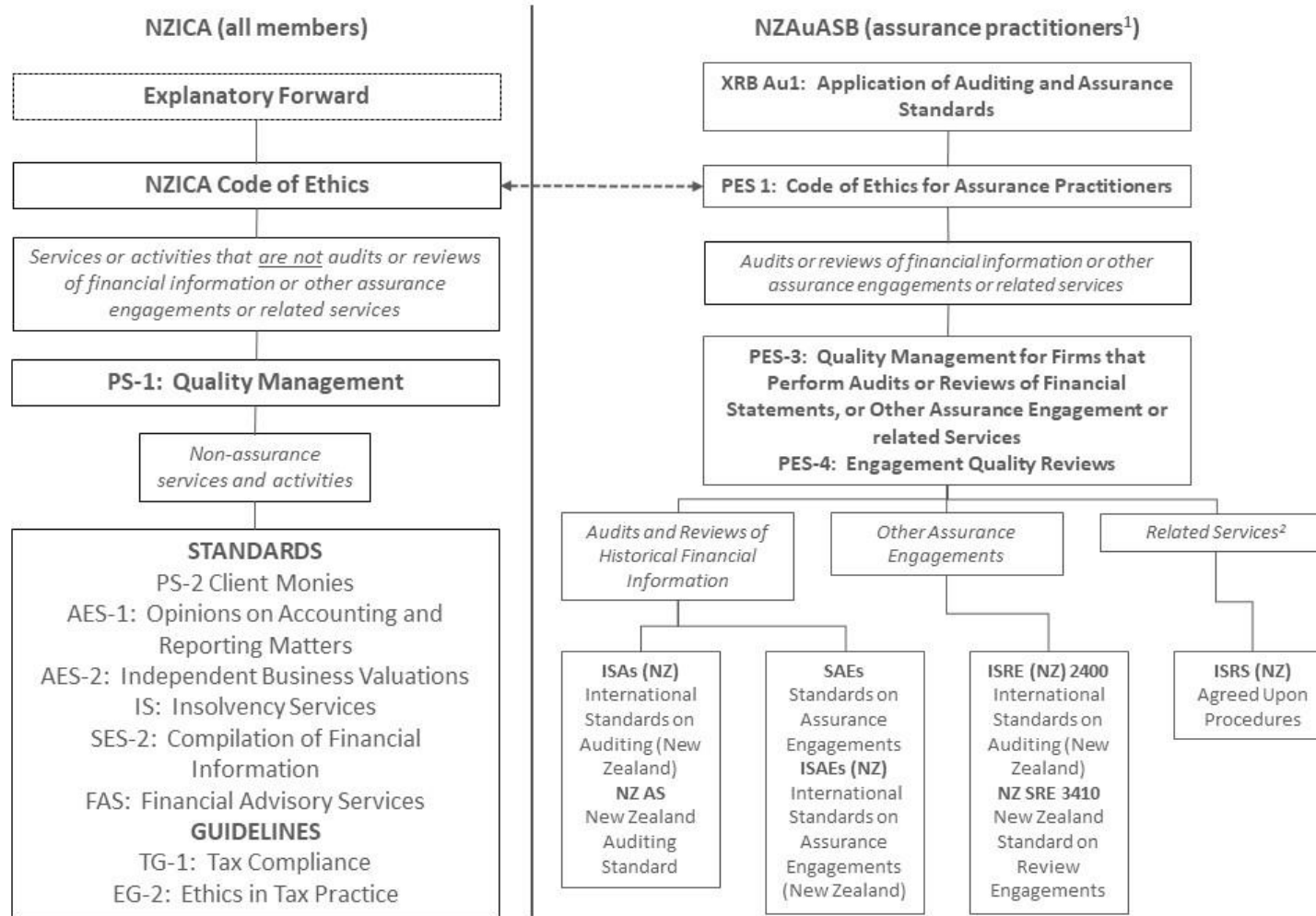
Conformity with International and Australian Standards

None of the International Federation of Accountants (IFAC) international standards boards have issued a pronouncement equivalent to the explanatory forward.

The Australian Accounting Professional and Ethical Standards Board (APESB) has not issued a pronouncement equivalent to the explanatory forward. However, the Australian specific equivalent material can be found in APESB *Due process and working procedures for the development and review of APESB pronouncements* (August 2019), APES 205 *Conformity with Accounting Standards* and APES 210 *Conformity with Auditing and Assurance Standards*.

Appendix 1: Structure of NZ professional standards

(As of 15 December 2022 – prior to this date the extant Quality Control standards were applicable)



1. A person or organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance or related services engagements

2. Services to perform agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner