



PROFESSIONAL AND ETHICAL STANDARD 1

Ethical Standards for Assurance Providers (PES 1)

Issued July 2011

Effective for assurance engagements beginning on or after 1 September 2011.

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Fundamental Principles

Professional and Ethical Standard 1 is based on a number of Fundamental Principles that express the basic tenets of professional and ethical behaviour and conduct. Assurance providers must abide by these Fundamental Principles. The Fundamental Principles are:

Integrity Paragraphs
Assurance providers must behave with Integrity in all professional and business relationships. Integrity implies not merely honesty but fair dealing and truthfulness. **16 to 30**

Objectivity and Independence **31 to 81**
Assurance providers must be fair, impartial and intellectually honest, and must not allow prejudice or bias, conflict of interest or influence of others to override Objectivity. Assurance providers must be, and be seen to be, Independent.

Competence **82 to 91**
Assurance providers must only undertake an assurance engagement in which they have the Competence necessary to perform the work in accordance with the Standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

Quality Performance **92 to 105**
Assurance providers must perform their assurance engagements with due care and diligence, ensuring that all assurance obligations are completed in a timely manner and are carried out in accordance with the standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

Professional Behaviour **106 to 177**
Assurance providers must act in a manner consistent with the good reputation of the assurance profession and refrain from any conduct which might bring discredit to other assurance providers.

Other Content **1 to 15**
Introduction

Definitions

Note: Defined words appear in *italics* the first time they appear in a section

Introduction

1. Professional and Ethical Standard 1 is designed to provide *assurance providers* with authoritative guidance on minimum acceptable standards of professional conduct. Professional and Ethical Standard 1 focuses on essential matters of principle and is not to be taken as a definitive statement on all matters.
2. – 4. *[Not used]*.

Compliance

5. Compliance with Professional and Ethical Standard 1 is mandatory for all assurance providers. Assurance providers must be able to demonstrate at all times that their actions, behaviour and conduct comply with Professional and Ethical Standard 1.
6. – 7. *[Not used]*.
8. Assurance providers should be bound not merely by the terms but also by the spirit of Professional and Ethical Standard 1. The fact that particular behaviour or conduct does not receive a mention within Professional and Ethical Standard 1 does not prevent it from amounting to a breach of ethics.
9. *[Not used]*.

Structure of Professional and Ethical Standard 1

10. Professional and Ethical Standard 1 has been structured around the Fundamental Principles that form the basis of the behaviour expected from assurance providers. Adherence to these Fundamental Principles is mandatory for all assurance providers.
- 10A. The circumstances in which assurance providers operate may give rise to specific threats to compliance with the Fundamental Principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. If identified threats are other than clearly insignificant, assurance providers should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the Fundamental Principles is not compromised. If an assurance provider cannot implement appropriate safeguards, the assurance provider should decline or discontinue the specific assurance service involved, or, where necessary, resign from the client or the employing organisation.
11. Supporting each Fundamental Principle are a number of specific Rules that prescribe aspects of the professional and ethical behaviour expected of assurance providers. Compliance with these Rules is mandatory for all assurance providers.
12. The Rules are, in turn, supported by guidance on the Application of the Rules. These “Application” sections establish appropriate ethical behaviour in a number of typical situations that can occur in the assurance profession. Assurance providers who encounter an ethical issue that is covered in the Application sections are expected to comply with the guidance provided.

13. The Rules and Applications are not intended to cover all circumstances where assurance providers may need to make decisions as to appropriate ethical conduct. In circumstances not specifically covered by Professional and Ethical Standard 1, assurance providers must have regard to the Fundamental Principles and should be guided by any similar situations specifically covered by the Rules and Applications.
14. – 15. *[Not used]*.

The Fundamental Principle of Integrity

Assurance providers must behave with Integrity in all professional and business relationships. Integrity implies not merely honesty but fair dealing and truthfulness.

16. Integrity is a quality of overriding importance for all assurance providers. Integrity implies not merely honesty but fair dealing and truthfulness. It is assurance providers' adherence to the fundamental principle of Integrity that allows the public to derive their trust in the assurance provider. It is also the benchmark against which an assurance provider must ultimately test all decisions.
17. Integrity can accommodate the inadvertent error and honest difference of opinion. However, Integrity cannot accommodate deceit or subordination of principles, values and standards.
18. Integrity is measured in terms of what is right or just.
19. In the absence of specific rules, standards or guidance, or in the face of conflicting opinions, an assurance provider should test their decisions and actions against the following questions:
 - Am I doing what a person of Integrity would do?
 - Have I retained my Integrity?

Integrity – The Rules

Rule 1: Incompatible Activities

- 20. An assurance provider must not engage in any business, occupation or activity which impairs or might impair the assurance provider's Integrity, or the good reputation of the assurance provider.*

Rule 2: False or Misleading Statements

- 21. An assurance provider must not make, prepare or certify, or permit or direct another person to make, prepare or certify, any statement which the assurance provider knows, believes or ought to know to be false, incorrect or misleading, or open to misconstruction, by reason of the misstatement, omission or suppression of a material fact or otherwise.*

Integrity – Application of the Rules

Rule 1: Incompatible Activities

An assurance provider must not engage in any business, occupation or activity which impairs or might impair the assurance provider's Integrity, or the good reputation of the assurance provider.

22. The simultaneous engagement in another business, occupation or activity unrelated to assurance work that has the effect of not allowing the assurance provider to properly discharge the assurance provider's responsibilities in accordance with the Fundamental Principles of Professional and Ethical Standard 1, is regarded as inconsistent with the assurance work conducted by assurance providers.
23. Assurance providers must ensure that they do not lend their names or their professional status to an enterprise which:
 - (a) involves an invitation to the public to pay, deposit or invest money, and the assurance provider knows, or as the result of reasonable enquiry ought to have known, that the invitation does not give a fair and full statement of the transaction that is involved; or
 - (b) may bring discredit to those associated with the enterprise.

Rule 2: False or Misleading Statements

An assurance provider must not make, prepare or certify, or permit or direct another person to make, prepare or certify, any statement which the assurance provider knows, believes or ought to know to be false, incorrect or misleading, or open to misconstruction, by reason of the misstatement, omission or suppression of a material fact or otherwise.

Preparation of Information

24. An assurance provider is expected to present information fully, honestly and professionally, so that it will be understood in its context.
25. *[Not used]*.

Forecasts of Future Results

26. An assurance provider must not sign or authorise for publication in any document intended for publication to the public (including to current and potential investors, lenders or creditors of the entity), an assurance statement or report on the estimated future results or dividends of an existing or proposed business unless the assurance provider is satisfied that the estimate of future results or dividends is not misleading and does not falsely imply an undertaking by the business or company concerned.
27. – 30. *[Not used]*.

The Fundamental Principle of Objectivity and Independence

Assurance providers must be fair, impartial and intellectually honest, and must not allow prejudice or bias, conflict of interest or influence of others to override Objectivity.

Assurance providers must be, and be seen to be, Independent.

Objectivity

31. The fundamental principle of Objectivity imposes the obligation on all assurance providers to be fair, impartial and intellectually honest.
32. Objectivity is essential for any assurance provider exercising professional judgement. Objectivity is a state of mind which has regard to all considerations relevant to the task in hand but no other.
33. In the absence of specific rules, standards or guidance, an assurance provider should test their decisions and actions against the following questions:
 - Would another equally experienced assurance provider have come to the same decision with access to the same information, but without the other relationships or influences that have put my Objectivity at risk?
 - Have I retained my Objectivity?

Independence

34. Assurance providers must not only be Objective, they must also be Independent.
35. Independence is:
 - (a) Independence of mind — the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with Integrity and exercise Objectivity and professional scepticism; and
 - (b) Independence in appearance — the avoidance of facts and circumstances that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude an assurance provider's Integrity, Objectivity or professional scepticism had been compromised.
36. Independence is an essential requirement for assurance engagements.

Objectivity and Independence – The Rules

Rule 3: Objectivity

37. Assurance providers must perform all assurance work with an Objective mind.

Rule 4: Independence

38. Assurance providers performing assurance engagements must be Independent of the entity and the subject matter on which they are reporting.

Rule 5: Disclosure of Conflicts of Interest

39. When an assurance provider has a conflict of interest the assurance provider must disclose the conflict to those involved.

Rule 6: [Not used]

40. [Not used].

Objectivity and Independence – Application of the Rules

Rule 3: Objectivity

Assurance providers must perform all assurance work with an Objective mind.

41. *[Not used]*.
42. Assurance providers are often exposed to situations that involve the possibility of pressures being exerted on them. These pressures may impair their Objectivity. It is impracticable to define and prescribe all such situations where these possible pressures exist. Reasonableness should prevail in establishing standards for identifying relationships that are likely to, or appear to, impair an assurance provider's Objectivity.
43. Assurance providers must remain conscious of the need to remain Objective in the performance of all assurance work, and must continually review and manage the risks to their Objectivity. In addition, assurance providers must ensure that they comply with the requirements of Professional and Ethical Standard 1 in relation to:
 - disclosure of conflicts of interest (paragraphs 59 to 78); and
 - Independence, (paragraphs 54 to 58).

Financial Involvement

44. Financial involvements may put the Objectivity of an assurance provider at risk. Where such risks exist assurance providers must take particular care to ensure that their assurance work is completed Objectively.
45. For an assurance provider, the following are examples of situations where there is a need to carefully manage and continually review the risk to the assurance provider's Objectivity from financial involvement:
 - (a) when the assurance provider, or their *immediate family*, or others in the assurance providers *firm* or their immediate families, has a *financial interest* in a client;
 - (b) when receipt of fees from a client or group of connected clients represents a significant proportion of the total gross income of the assurance provider or the assurance provider's firm; and
 - (c) when material amounts of fees remain unpaid by a client.
46. *[Not used]*.

Personal Relationships

47. Family, business and personal relationships may put the Objectivity of an assurance provider at risk. There is a particular need to ensure that an Objective approach to any assurance engagement is not endangered as a consequence of any such relationship.

Acceptance and Offer of Gifts or Hospitality

48. Assurance providers must neither accept nor offer gifts or hospitality that might reasonably be believed to have a significant and improper influence on their professional judgement or those with whom they deal. What constitutes an excessive gift or offer of hospitality will vary according to the nature and extent of the professional relationship and the accepted practice in a particular industry or culture.
49. – 53. *[Not used]*.

Rule 4: Independence

Assurance providers performing assurance engagements must be Independent of the entity and the subject matter on which they are reporting.

Independence for Assurance Engagements – A Conceptual Framework

54. Professional and Ethical Standard 2 provides a detailed discussion of Independence for assurance engagements. The pronouncement takes a conceptual approach, discussing threats to Independence and appropriate safeguards that assurance providers may take to protect their Independence. It also provides a number of examples of how the conceptual approach to Independence is to be applied to specific circumstances and relationships.
55. – 58. *[Not used]*.

Rule 5: Disclosure of Conflicts of Interest

When an assurance provider has a conflict of interest the assurance provider must disclose the conflict to those involved.

59. Conflicts of interest may arise where an assurance provider undertakes assurance work for a client and the assurance provider, or the assurance provider's firm, has a relationship with another person, entity, product or service that could be viewed by the client as impairing the Objectivity of the assurance provider.
60. Assurance providers must inform clients of the nature of any business connections, interests or affiliations which could be viewed as affecting the assurance provider's judgement or impairing the Objective quality of their services to such clients.
61. In the rendering of assurance services, two types of conflict of interest may arise:
 - (a) conflicts between the interests of an assurance provider, or an assurance provider's firm, and a client; and
 - (b) conflicting interests of different clients.
62. Situations frequently arise which are perceived by clients to be a conflict of interest, but which in reality are no more than concerns about the confidentiality of information.
63. Assurance providers must establish systems and procedures that enable them to identify conflicts of interests, whether the conflict of interest arises in the acceptance of new assignments or in the performance of existing engagements. Assurance providers must be able to demonstrate to new and existing clients that any conflict of interest can be managed with appropriate safeguards.

Conflicts Between the Interests of an Assurance Provider, or an Assurance Provider's Firm, and a Client

64. Where there is, or is likely to be, a conflict between the interests of an assurance provider, or an assurance provider's firm, and a client, then the appropriate safeguards include:
 - (a) disclosure in writing of the circumstances of the conflict;
 - (b) advising the client in writing that, in the particular circumstances, the client may wish to seek alternative independent advice; and
 - (c) obtaining in writing the informed consent of the client to act.
65. In those circumstances where effective safeguards are not available to reduce the risk to an assurance provider's actual or perceived Objectivity, then the assurance provider must not accept the new engagement or must discontinue the existing engagement.

Conflicts Between the Interests of Two or More Clients

66. *[Not used]*
67. It is conceivable in today's business environment that an assurance provider or an assurance provider's firm may undertake professional work for two or more clients

whose interests may be in conflict with each other. However, an assurance provider must take all reasonable steps to manage the activities of the assurance provider's firm so as to avoid the work of the firm on behalf of one client adversely affecting that undertaken on behalf of another client.

68. Where an assurance provider believes that the situation may be managed, sufficient disclosure must be made in writing to the clients or potential clients concerned together with details of any proposed safeguards to preserve confidentiality and manage the conflict of interest. In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance provider must disengage from the relevant assurance work.
69. Safeguards to manage potential conflicts between the interests of two or more clients include:
 - (a) the use of different partners and staff for different engagements, each having separate internal reporting lines;
 - (b) standing instructions and all other steps necessary to prevent the transfer of confidential information between staff and sections within the firm;
 - (c) regular reviews of the situation by a senior partner not personally involved with either client;
 - (d) advising all the relevant clients in writing that, in the particular circumstances, they may wish to seek alternative independent advice; and
 - (e) obtaining in writing informed consent to act from all the clients concerned.
70. Where the acceptance or continuance of assurance work would, even with the above safeguards, prejudice the interests of any of the clients involved, the assurance work must not be accepted or continued.

Clients in Dispute

71. In severe cases of conflict of duty, such as where two clients are, or are about to become, in dispute on a matter, the assurance provider or the assurance provider's firm must not advise both clients on the matter. The assurance provider or the firm must determine whether it is appropriate to advise one client or encourage them both to seek independent advice. The assurance provider or the firm should only elect to continue to advise one client on the matter provided that the interests of the other client would not be materially prejudiced thereby. This does not preclude the assurance provider acting as sole arbitrator or referee if requested to so act by both clients.
72. In a property or relationship dispute where the assurance provider had previously undertaken work for both parties jointly, the assurance provider should consider the following safeguards:
 - (a) *[not used]*,
 - (b) obtaining in writing informed consent from both parties to continue to act.
73. Where the acceptance or continuance of assurance engagement would, even with the above safeguards, prejudice the interests of any of the clients involved, the assurance engagement must not be accepted or continued.

74. Regardless of whether an assurance provider has advised one party involved in the property or relationship dispute to seek independent professional advice, the assurance provider must remain conscious of any rights both parties have of accessing the information held by the assurance provider.

Receipt of Commissions or other Benefits from a Third Party

75. The receipt of a commission by an assurance provider could impair the assurance provider's Objectivity and Independence. An assurance provider must make adequate disclosure in writing of the existence of the arrangement from which a commission may be paid to the assurance provider, the identity of the third party or parties, and the method of calculating the commission.
76. Assurance providers should consider the desirability of obtaining written acknowledgement from each client that this disclosure has been made.
77. If advice is given to a client, which, if acted upon, would result in receipt of commission by the assurance provider or the assurance provider's firm, care should be taken to ensure that the advice is in the best interests of the client.

Associations with Third Parties

78. In making any recommendation for the use of the services of a third party, any relevant connection between the third party and the assurance provider, or assurance provider's firm, must be disclosed in writing to the client.

Rule 6: *[Not used]*

79. – 81. *[Not used].*

The Fundamental Principle of Competence

Assurance providers must only undertake an assurance engagement in which they have the Competence necessary to perform the work in accordance with the Standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

82. Competence implies that an assurance provider possesses the necessary knowledge, education and experience appropriate to the nature of the assurance work being performed.
83. Competence to perform assurance work involves both the technical qualifications and experience of the assurance provider and the assurance provider's staff, and the ability to supervise and evaluate the quality of the work performed. Competence relates both to knowledge of the relevant standards, techniques and the technical subject matter involved, and to the capability to exercise sound judgement in applying such knowledge in the performance of assurance work.
84. In the absence of specific rules, Competency standards or guidance, an assurance provider should test their decisions to undertake assurance work against the following questions:
 - Am I Competent to perform this work?
 - Can I obtain expert advice or assistance to enable me to perform this work Competently?

Competence – The Rules

Rule 7: Competence

85. *An assurance provider who accepts or undertakes assurance work must have the Competence necessary to carry out the work. Accordingly, an assurance provider must refrain from undertaking or continuing any assurance engagement which the assurance provider is not Competent to carry out, unless the assurance provider obtains such advice and assistance as will enable the assurance provider to complete the engagement in an efficient, proper and timely manner.*

Rule 8: Duty to Maintain Competence

86. *An assurance provider has a duty to observe and maintain a high standard of professional Competence throughout the period the assurance provider is undertaking assurance engagements.*

Competence – Application of the Rules

Rule 7: Competence

An assurance provider who accepts or undertakes assurance work must have the Competence necessary to carry out the work. Accordingly, an assurance provider must refrain from undertaking or continuing any assurance engagement which the assurance provider is not Competent to carry out, unless the assurance provider obtains such advice and assistance as will enable the assurance provider to complete the assignment in an efficient, proper and timely manner.

87. Assurance providers must not portray themselves as having expertise or experience they do not possess.
88. Assurance providers must refrain from agreeing to perform assurance engagements which they are not Competent to carry out, unless Competent advice and assistance is obtained so as to enable them to satisfactorily perform the engagement. If an assurance provider does not have the Competence to perform a specific part of the assurance engagement, technical advice must be sought from experts such as other assurance providers, lawyers, actuaries, engineers, geologists, valuers.
89. In such situations, although the assurance provider is relying on the technical Competence of the expert, the expert's knowledge of the ethical requirements cannot be automatically assumed. Since the ultimate responsibility for the assurance engagement rests with the assurance provider, the assurance provider must ensure that the requirements of Professional and Ethical Standard 1 appropriate to the work being performed are followed.
90. *[Not used]*.

Rule 8: Duty to Maintain Competence

An assurance provider has a duty to observe and maintain a high standard of professional Competence throughout the period the assurance provider is undertaking assurance engagements .

91. An assurance provider has a continuing duty to maintain professional knowledge and skills at a level required to ensure that the assurance provider's clients receive Competent assurance based on up-to-date developments and practice, legislation and techniques.

The Fundamental Principle of Quality Performance

Assurance providers must perform their assurance engagements with due care and diligence, ensuring that all assurance obligations are completed in a timely manner and are carried out in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

92. Due care imposes the obligation to perform assurance engagements to the best of an assurance provider's ability, with concern for the best interests of those for whom the engagement is performed.
93. Diligence imposes the responsibility to perform assurance engagements promptly and carefully, to be thorough, and to observe applicable standards.
94. In the absence of specific rules, standards or guidance, an assurance provider should test their performance against the following question:
 - Am I providing the standard of assurance that a reasonable client would expect, given the circumstances?

Quality Performance – The Rules

Rule 9: Due Care and Diligence

- 95. Assurance providers must perform all their assurance engagements with due care and diligence.*

Rule 10: Timeliness

- 96. Assurance providers must complete all their assurance obligations in a timely manner.*

Rule 11: Compliance with Technical and Professional Standards

- 97. Assurance providers must comply with the requirements of the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.*

Quality Performance – Application of the Rules

Rule 9: Due Care and Diligence

Assurance providers must perform all their assurance engagements with due care and diligence.

98. Assurance providers have a duty to carry out with care and skill, the assurance engagement.

Rule 10: Timeliness

Assurance providers must complete all their assurance obligations in a timely manner.

99. Assurance providers have a duty to perform their assurance obligations in a timely manner. As well as the assurance work that the assurance provider is engaged to perform, these obligations include, but are not limited to, communications with clients and other assurance providers.
100. Assurance providers must keep their clients fully informed of the progress of any assurance work, if it is likely that that work will not be completed within a reasonable timeframe or within the deadlines agreed.
101. Assurance providers must pay particular attention to the scheduling and completion of assurance work if it is known that the work is required by a specific date.

Rule 11: Compliance with Standards

Assurance providers must comply with the requirements of the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

102. Assurance providers must comply with auditing and assurance standards, including professional and ethical standards, issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

103. – 105. *[Not used]*.

The Fundamental Principle of Professional Behaviour

Assurance providers must behave in a manner consistent with the good reputation of the assurance provider and refrain from any conduct which might bring discredit to other assurance providers

106. Assurance providers must behave professionally in all aspects of their assurance work.
107. Confidentiality of client information is a key aspect of Professional Behaviour.
108. For assurance providers, other areas where Professional Behaviour is particularly important and expected are:
 - (a) the publicity and promotion of assurance services;
 - (b) the charging of professional fees;
 - (c) resolving disputes with clients; and
 - (d) accepting new assignments.
109. In the absence of specific rules, standards or guidance, an assurance provider should test their behaviour against the following questions:
 - How would I react if I was the client (or other party) and an assurance provider behaved like this towards me?
 - Have I behaved Professionally?

Professional Behaviour – The Rules

Rule 12: Confidentiality

110. Assurance providers must respect the confidentiality of information acquired in the course of their assurance work and must not disclose such information without proper and specific authority or unless there is a legal or professional right or duty to disclose the information.

Rule 13: [Not used]

111. [Not used].

Rule 14: Professional Conduct

112. Assurance providers must conduct themselves with courtesy and consideration towards all they come into contact with during their assurance work.

Professional Behaviour – Application of the Rules

Rule 12: Confidentiality

Assurance providers must respect the confidentiality of information acquired in the course of their assurance work and must not disclose such information without proper and specific authority or unless there is a legal or professional right or duty to disclose the information.

113. Assurance providers have an obligation to respect the confidentiality of information about a client's affairs acquired in the course of their assurance work. The duty of confidentiality continues even after the end of the relationship between the assurance provider and the client.
114. Assurance providers have an obligation to ensure that staff under their control and persons from whom advice and assistance are obtained respect the principle of confidentiality.
115. Confidentiality is not only a matter of disclosure of information. It also requires that an assurance provider acquiring information in the course of performing their assurance work neither uses nor appears to use that information for personal advantage or for the advantage of a third party.

Fraudulent or Illegal Activities and Confidentiality

116. In those circumstances where an assurance provider, in the course of their assurance work, discovers evidence of fraudulent or illegal activities, the assurance provider must:
 - (a) where appropriate, raise the matter with the appropriate level of management of the client; and
 - (b) consider the assurance provider's legal and professional rights and duties to disclose the information to other parties.
117. In circumstances where the assurance provider discovers evidence of fraudulent or illegal activities and there is no legal or professional right or duty to disclose, then the assurance provider must not communicate the information to a third party without the client's consent. However, the assurance provider must do all that can be done to persuade the assurance provider's client to fulfil the client's legal obligations. Should the client decline, the assurance provider should safeguard the assurance provider's Integrity by declining to undertake further assurance work on behalf of the client concerned.
118. – 125. *[Not used]*.

Rule 13: *[Not used]*

126. – 130. *[Not used]*.

Rule 14: Professional Conduct

Assurance providers must conduct themselves with courtesy and consideration towards all they come into contact with during their assurance work, including clients, other assurance providers, staff, third parties and the general public.

Professional Dealings with Clients

Publicity and Promotion of Assurance Services

131. Assurance providers are permitted to promote, advertise and solicit their assurance services, provided such promotion is carried out in a manner which is consistent with the good reputation of the assurance provider and does not bring discredit to other assurance providers.
132. Forms of unacceptable promotion of assurance services include, but are not limited to, those that:
- (a) involve the use of coercion, overreaching or harassing conduct;
 - (b) are presented in a manner or contain material which is not in good taste;
 - (c) create false or unjustified expectations of favourable results;
 - (d) make comparisons with other assurance providers that are not based on verifiable facts;
 - (e) imply the ability to influence any court, tribunal, regulatory agency or similar body or official;
 - (f) consist of self-laudatory statements that are not based on verifiable facts;
 - (g) are presented in a manner or contain material that would be likely to mislead or deceive members of the public;
 - (h) contain testimonials or endorsements other than where:
 - (i) the prior consent has been obtained from the giver of the testimonial or endorsement; and
 - (ii) the testimonial or endorsement has not been obtained for reward.
133. An assurance provider will be held responsible for the form and content of any advertisement, whether placed by the assurance provider personally or by another person or organisation on the assurance provider's behalf, and for any publicity which the assurance provider expressly or impliedly authorises.
134. – 156. *[Not used]*.

Disputes with Clients and Termination of Engagements

157. Assurance providers may on occasion find themselves in dispute with a client in relation to the level of fees charged, the quality of the services provided or some other aspect of their dealings with the client. When a dispute arises an assurance provider must actively attempt to resolve the dispute in a timely manner.
158. If an assurance provider believes that a relationship with a client has been or is likely to be terminated, whether by the client or the assurance provider, the assurance

provider must take care to make clear to the client what matters within the terms of the engagement have been dealt with and what remains to be done, and also what further action in relation to the engagement the assurance provider will, or will not, take.

Professional Dealings with Other Assurance Providers

Accepting New Assignments

159. When an assurance provider is asked to provide assurance services, enquiries must be made as to whether the prospective client has an existing assurance provider. If the appointment will result in another assurance provider being superseded, the procedures set out in paragraphs 164 to 177 must be followed.
160. – 163. *[Not used]*.

Superseding Another Assurance Provider

164. It is important that an assurance provider who is asked to replace another assurance provider has the opportunity to ascertain if there are any professional reasons why the appointment should not be accepted. This cannot effectively be done without direct communication with the existing assurance provider. In the absence of a specific request, the existing assurance provider must not volunteer information about the client's affairs.
165. Communication enables a proposed assurance provider to ascertain whether the circumstances in which a change in appointment is proposed are such that the appointment can properly be accepted and also whether there is a wish to undertake the engagement.
166. The extent to which an existing assurance provider can discuss the affairs of the client with the proposed assurance provider depends on:
- (a) whether the client's permission to do so has been obtained; and/or
 - (b) the legal or ethical requirements relating to such disclosure.
167. The proposed assurance provider must treat in the strictest confidence and give due weight to any information provided by the existing assurance provider.
168. The information provided by the existing assurance provider may indicate, for example, that the ostensible reasons given by the client for the change are not in accordance with the facts. It may disclose that the proposal to make a change in assurance provider was made because the existing assurance providers stood their ground and properly carried out their duties as assurance providers despite opposition or evasion on an occasion when important differences of principles or practice arose with the client.
169. *[Not used]*.
170. Before accepting an appointment to supersede another assurance provider in the provision of recurring assurance services, the proposed assurance provider must:
- (a) ascertain if the prospective client has advised the existing assurance provider of the proposed change and has given the existing assurance provider permission,

preferably in writing, to discuss the client's affairs relevant to the proposed change fully and freely with the proposed assurance provider;

- (b) when satisfied with the reply received from the prospective client, request permission to communicate with the existing assurance provider. If such permission is refused or the permission referred to in (a) above is not given, the proposed assurance provider should attempt to acquire the relevant information by other means and in the absence of special circumstances the assurance provider should take particular care before superseding the existing assurance provider; and
- (c) on receipt of permission, request the existing assurance provider, preferably in writing to provide:
 - (i) information on any professional matters of which the proposed assurance provider should be aware before deciding whether or not to accept the appointment; and
 - (ii) if there are such matters, all the details necessary to enable the proposed assurance provider to make an informed decision.

171. In the case of audit engagements, the communication with the existing assurance provider must be made before the proposed assurance provider's name may formally go forward for nomination.

172. The existing assurance provider, on receipt of the communication referred to in paragraph 170(c) must:

- (a) reply within seven days, preferably in writing, advising whether there are any professional reasons why the proposed assurance provider should not accept the appointment;
- (b) if there are any such reasons or other matters which should be disclosed, ensure that the client has given permission to give details of this information to the proposed assurance provider. If permission is not granted, the existing assurance provider must report that fact to the proposed assurance provider; and
- (c) on receipt of permission from the client, disclose all information needed to enable the proposed assurance provider to decide whether or not to accept the appointment, and discuss freely with the proposed assurance provider all matters relevant to the appointment of which the latter should be aware.

173. – 174. *[Not used]*.

175. The existing assurance provider must promptly transfer all documents belonging to the client, whenever or however obtained, to the client or, where the client so instructs, to the proposed assurance provider, and should advise the client accordingly, unless the existing assurance provider has a legal right to withhold them. In addition, the existing assurance provider should provide such information regarding the client that is essential to enable the superseding assurance provider to perform the assurance services previously provided to the client.

176. – 177. *[Not used]*.

Definitions

For the purpose of Professional and Ethical Standard 1 the following terms have the meaning specified.

Assurance provider means any person or organisation appointed or engaged to provide assurance services.

Financial interest means an interest in equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Firm means:

- (a) a sole practitioner, partnership or corporate practice;
- (b) an entity that controls such parties; and
- (c) an entity controlled by such parties.

Immediate family means a spouse (or equivalent) and dependants.