EXPLANATORY GUIDE Au5

Implementing the Code of Ethics for Assurance Practitioners

Issued January 2013

This Explanatory Guide is to assist assurance practitioners as they adopt and implement Professional and Ethical Standard (PES) 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB)[1].

This publication does not amend or override PES 1 (Revised), the text of which alone is authoritative. Reading this document is not a substitute for reading PES 1 (Revised). This document is not meant to be exhaustive and reference to PES 1 (Revised) itself should always be made.

This Explanatory Guide is an explanatory document and has no legal status.

[1] Acknowledgement

The information in this Explanatory Guide is adapted from both the IESBA Staff Questions and Answers Implementing the Code of Ethics and IESBA Staff Questions and Answers Implementing the Code of Ethics – Part II published by the International Federation of Accountants (IFAC), at: http://www.ifac.org/sites/default/files/publications/files/IESBA-Code_QaA.pdf and http://www.ifac.org/sites/default/files/publications/files/IESBA-Staff-Questions-Answers-Code-of-Ethics-II.pdf

ISBN 978-1-927238-20-2

Questions and Answers

Application of the Conceptual Framework Approach

Q1. ***Under the conceptual framework approach in PES 1 (Revised), can an assurance practitioner apply safeguards to avoid having to comply with a prohibition in PES 1 (Revised)? For example, can an interest or relationship that is prohibited under PES 1 (Revised) be entered into if the assurance practitioner applies safeguards?***

No. The prohibitions in PES 1 (Revised) are derived from the application of the conceptual framework. Therefore, when an interest or relationship is prohibited, the NZAuASB has already considered whether safeguards can be effective in eliminating the related threat or reducing it to an acceptable level. Accordingly, the assurance practitioner may not apply safeguards, regardless of how rigorous they may be thought to be, to overcome the requirement to comply with a prohibition in PES 1 (Revised).

Q2. Can an audit firm apply safeguards to enable it to avoid complying with a provision that prohibits a non-assurance service? Does it make a difference if the firm is a small audit firm?

The answer to both questions is no. Refer to the answer to Question 1 above. The significance of a threat does not differ just because an audit firm is a small firm. While the NZAuASB is sensitive to the issues faced by small firms, it concluded that other than the exception to partner rotation in paragraph 290.155, the requirements in PES 1 (Revised) should not differ based on the size of a firm.

Q3. If an interest or relationship with the audit client is not prohibited under PES 1 (Revised) (for example, PES 1 (Revised) does not address it or there is no provision in PES 1 (Revised) that would apply by analogy), does that mean the interest or relationship is automatically permitted?

No. Under the conceptual framework approach in PES 1 (Revised), the interest or relationship must be evaluated to determine whether it creates any threats to independence. If any threats created are not at an acceptable level, safeguards must be applied to eliminate the threats or reduce them to an acceptable level. Only then would the interest or relationship be permitted.

Q4. For interests or relationships that are not prohibited by PES 1 (Revised), could the application of the conceptual framework approach result in a decision that the interest or relationship should not be entered into?

Yes. The conceptual framework approach requires a rigorous analysis of the threats that may be created by the interest or relationship and an assessment of whether safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. If that cannot be achieved, the interest or relationship should not be entered into. Accordingly, while the conceptual framework approach helps the assurance practitioner to determine how best to meet the objectives of the fundamental principles set out in PES 1 (Revised), it can also demonstrate that an interest or relationship should not be entered into because the threat that would be created would be such that no safeguards could reduce it to an acceptable level.

Q5. PES 1 (Revised) does not use the term "clearly insignificant," which was used in PES 2[2] prior to withdrawal. How does this affect the evaluation of threats and application of safeguards when applying the conceptual framework approach?

Prior to withdrawal, PES 2 used the term "clearly insignificant" to establish the starting point for determining which threats (that is, threats that were not clearly insignificant) might require the application of safeguards. Under both PES 2 and PES 1 (Revised), a threat that is not at an acceptable level requires the application of safeguards to eliminate the threat or reduce it to an acceptable level before the interest or relationship that creates the threat can be deemed acceptable. Accordingly, the change simplified the application of the conceptual framework approach, without changing the requirement that threats that are not at an acceptable level be eliminated or reduced to an acceptable level by the application of safeguards.

Q6. Certain paragraphs in PES 1 (Revised) provide a list of safeguards that could be applied. Are these lists all-inclusive or are there other safeguards that might be effective in the particular circumstances?

Where the list of safeguards is preceded by wording such as "examples of such safeguards include," the list is not all inclusive but merely contains examples of safeguards that the NZAuASB believes could be effective in the specific circumstance. Other safeguards might also be effective. Judgement would be required to determine the effectiveness of any safeguards in each circumstance. However, where the safeguards are prescribed, as in paragraph 290.222, those safeguards must be applied.

Pre- or Post-issuance Review When Total Fees Exceed 15%

Q7. Under paragraph 290.222 a pre- or post-issuance review of the audit engagement is required to be conducted by an assurance practitioner who is not a member of the firm. It could be difficult to engage an outside assurance practitioner to perform that review because of concerns that the review would expose the assurance practitioner to liability. Is there any alternative in that situation?

No. The NZAuASB concluded that such a review, which must be equivalent to an engagement quality control review, is a necessary safeguard when total fees from an audit client that is a public interest entity exceed 15% of the firm's total fees for two consecutive

[2] Professional and Ethical Standard 2, "*Independence in Assurance Engagements".*

years. Most firms have insurance policies that provide them with practice liability protection and many of those policies cover outside assurance practitioners who provide services to the firm. Firms might also consider indemnifying the outside assurance practitioner to address concerns about exposure to liability. Under either arrangement, the assurance practitioner performing the review would need to comply with the confidentiality requirements in PES 1 (Revised) with respect to the firm and the firm's audit client.

Q8. When determining whether total fees from a public interest entity audit client exceed 15% of the firm's total fees, how should the calculation be made? Should the firm include in the calculation all fees charged for all services rendered to the audit client (i.e., not just audit fees) and all fees charged for all services rendered to all clients?

Yes.

Definition of Key Audit Partner

Q9. Would a tax partner who participates on the audit team be considered a key audit partner?

Generally, no. A tax partner is not an audit partner and, therefore, would typically not meet the definition of a key audit partner. However, judgement should be applied in determining whether a tax partner on the audit team functions in substance as an audit partner. If so, the tax partner would meet the definition of a key audit partner and be subject to the provisions in PES 1 (Revised) that apply to key audit partners.

Related Entities

Q10. When applying paragraph 290.27 in a situation involving an audit client that is not an issuer where the client does not control the related entity (e.g., a company over which the client has significant influence), should a firm consider all interests and relationships that it has with that related entity, or just the interest or relationship that caused the audit team to believe that the related entity is relevant to its evaluation of the firm's independence from the client?

All interests and relationships with the related entity should be considered once the audit team has concluded that the related entity is relevant to its evaluation of the firm's independence from the client.

Partner Rotation

Q11. If a firm is unable to meet the partner rotation requirements because it does not have enough audit partners in the firm, paragraph 290.155 notes that partner rotation may not be an available safeguard. If a firm has determined that it is not possible to apply that safeguard, and the independent regulator in that jurisdiction has not provided an exemption from partner rotation in such circumstances, is there any other alternative for that situation?

No. The NZAuASB believes that partner rotation strikes the right balance between the objective of bringing a fresh set of eyes to the engagement and the objective of retaining a firm's institutional knowledge of the client to promote audit quality. The NZAuASB concluded that other possible safeguards would not be effective in achieving the first objective.

Emergency Accounting and Bookkeeping Services

Q12 PES 1 (Revised) indicates that accounting and bookkeeping services can be provided to an audit or review client in emergency or other unusual situations where it is impractical for the client to make other arrangements and specified conditions are met. How would one determine whether a circumstance was an emergency or other unusual situation?

Given the self-review threats that are created by rendering such a service to an audit or review client, the NZAuASB intends this to be a high hurdle to meet. Whether a circumstance is an emergency or other unusual situation would depend on all of the relevant facts. However, it would likely involve a sudden and unexpected event that was not foreseeable and one that creates a situation that calls for immediate action. In that case, if it is impractical for the client to obtain the accounting and bookkeeping services from another provider, and other specified conditions are met, the firm may provide the services.

Q13. What is an example of tax advice where the effectiveness of the advice depends on a particular accounting treatment or financial statement presentation (paragraph 290.190) for which the audit or review team could have reasonable doubt as to its appropriateness?

Situations will vary depending on the taxing jurisdiction and judgement will be required. One example might be where the effectiveness of tax advice to deduct lease payments depends on the lease being treated as an operating lease for financial reporting purposes. In that case, the audit or review team will need to conclude without reasonable doubt that the operating lease treatment is appropriate for accounting purposes.

Q14 Paragraph 290.185 prohibits tax calculations of current and deferred taxes for the purpose of preparing accounting entries for a public interest entity audit client where the entries would be material to the financial statements. If the entries would not be material, could the firm provide the service without performing an evaluation of any threats that may be created by the service?

No. The fact that the service is not prohibited doesn't automatically make it permitted. (Refer to the answer to Question 3.)

Effective Date

Q15. PES 1 (Revised) provides a one-year delayed effective date for the additional independence provisions of PES 1 (Revised) that apply because of the new

definition of a public interest entity or because the related guidance in paragraph 290.26 captures entities that were not public interest entities under PES 2 prior to withdrawal. Does that delayed effective date have priority over the delayed effective dates that apply to the new non- assurance services and fees provisions?

Yes.

Services Involving the Extension of Audit Procedures

Q16. PES 1 (Revised) does not include the statement that was in PES 2 that "services involving an extension of the procedures required to conduct an audit in accordance with auditing standards would not be considered to impair independence provided that the firm's or network firm's personnel do not act or appear to act in a capacity equivalent to a member of audit client management." Does the absence of this statement mean that such a service is prohibited under PES 1 (Revised)?

No. The NZAuASB believes that the statement continues to hold true. However, it is no longer necessary given PES 1 (Revised)'s description of certain internal audit activities, which does not include performing extended procedures as part of an audit, and its expanded guidance on management responsibilities, both in the section dealing with internal audit services and in a new section dealing with management responsibilities.

Provision of IT Systems Services

Q17. A firm has been asked to implement an IT system for a public interest entity audit client. Since the system will not form a significant part of the client's internal control over financial reporting and will not generate information that is significant to the client's accounting records or financial statements, the service is not prohibited under paragraph 290.206, which explicitly applies to public interest entity audit clients. Can the firm provide the service without performing an evaluation of any threats that may be created by the service?

No, an evaluation of any threats that may be created is still required. Paragraph 290.206 is a prohibitive provision. Just because a service is not prohibited under that paragraph doesn't mean it is automatically permitted. (Refer to the answer to Question 3.)

Self-interest Threat Example

Q18. Paragraph 200.4 states that an assurance practitioner discovering a significant error when evaluating the results of a previous professional service performed by a member of the assurance practitioner's firm is an example of a circumstance that creates a self- interest threat. PES 2 previously described this as a self-review threat. Why did this change?

A self-review threat is the threat that the assurance practitioner will not appropriately evaluate the results of the previous service and, for example, find any errors. However, once an error has been discovered, the assurance practitioner would need to address the

error. The threat, therefore, is that the assurance practitioner might not do that because it is not in the assurance practitioner's self-interest (or the firm's interest) to do so. Thus, upon discovery of the error, the threat that is created is a self-interest threat.

Financial Interests

Q19. Paragraph 290.116 requires the disposal of a financial interest received by way of an inheritance, gift, or as a result of a merger. Why must the firm, members of the audit or review team, and their immediate family dispose of such an interest immediately while individuals who are not members of the audit or review team are required to dispose as soon as possible?

The requirement to dispose immediately reflects the urgency of reducing or eliminating the self-interest threat created by such an interest so that the audit or review is not being conducted by those who have a financial stake in the outcome of the audit or review. Accordingly, if a member of the audit or review team or their immediate family member cannot dispose of the interest immediately, the individual should be removed from the audit or review team.

Valuation Services

Q20. Paragraph 290.180 states that a firm shall not provide valuation services to an audit client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the "financial statements on which the firm will express an opinion." Why is this term used and how is it different from "financial statements"?

PES 1 (Revised), in paragraph 290.27, states that when the audit client is an issuer, references in PES 1 (Revised) to audit client include related entities of the client unless otherwise stated. The term "financial statements on which the firm will express an opinion" is used to make it clear which financial statements should be used to make the materiality determination. In the case of the audit of a consolidated group, it is the consolidated financial statements of that group. In the case of a single entity, it is the financial statements of that single entity.

Contingent Fees

Q21. Paragraph 290.226(a) prohibits the charging of a contingent fee if the fee is charged by the "firm expressing the opinion on the financial statements" and the fee is material to that firm. Why is this term used and to which firm does it refer?

Paragraph 290.3 states that the term "firm" includes network firm unless otherwise stated. The term "firm expressing the opinion on the financial statements" is used to make it clear that, in a group audit situation; materiality should be measured against the firm itself, and not the network firms. Paragraph 290.226(b) addresses network firms.

Materiality

Q22. Some of the paragraphs in Section 290 that apply to the provision of non-assurance services to an audit or review client state that a service shall not be provided if it will have a material effect on the client's financial statements. PES 1 (Revised) does not provide any guidance on materiality. How should materiality be determined?

Reference should be made to the auditing standards. ISA (NZ) 320, *Materiality in Planning and Performing an Audit* deals with an auditor's responsibility to apply the concept of materiality in planning and performing an audit. The ISA (NZ) requires materiality to be determined for the financial statements as a whole. Under the ISA (NZ), however, if there are one or more particular classes of transactions, account balances, or disclosures for which misstatements of lesser amounts could reasonably be expected to influence the decisions of users, the auditor is required to determine the materiality level to be applied to those particular classes of transactions, account balances, or disclosures. In such circumstances, that materiality level should be used if the proposed non- assurance service relates to the particular class of transaction, account balance, or disclosure.

Q23. Paragraph 290.180 states that a firm shall not provide valuation services to an audit client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion. If a firm assesses that the valuation service will not have a material effect on the financial statements, it starts the service and it becomes apparent that the service would have a material effect, can the firm continue the valuation service on the basis that the service initially met the materiality test?

In this circumstance, the firm would not be independent if it continued the service. PES 1 (Revised) prohibits a firm that is required to be independent from providing valuation services that would have a material effect on the financial statements of a public interest entity audit client. Accordingly, if at any time after agreeing to perform the valuation service it becomes apparent that the valuation service will have a material effect on the financial statements, the firm may not provide the valuation service and continue to be the entity's auditor.

Partner Rotation

Q24. PES 1 (Revised) contains two transitional provisions related to the new partner rotation requirements, which are effective for years beginning on or after 1 January 2015. Another transitional provision states that the additional independence provisions that are applicable because of the new definition of a public interest entity are effective on 1 January 2015. What effect does the transitional provision related to public interest entities have on the partner rotation transitional provisions?

The interaction of the transitional provisions is shown in the tables below. The tables assume a December 31 year end. The years in bold indicate the last year that the individual could serve in that role before rotation would be required.

Issuer

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Note
-	EP	EP	EP	EP	EP	EP	**EP**	-	-	1
-	-	EP	EP	EP	EP	EP	EP	**EP**	-	1
-	-	-	EP	EP	EP	EP	EP	EP	**EP**	1
EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	**EQCR**		2
-										
OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	**OKAP**	-	2
EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EP	EP	**EP**	-	3
EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EP	**EP**	-	3
OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	EP	EP	**EP**	-	3
OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	EP	**EP**	-	3

Public Interest Entity That Is Not an Issuer

2006	2007	2008	2009	2010	2011	2012	2013	2014	Note
EP	EP	EP	EP	EP	EP	EP	EP	**EP**	4
EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	EQCR	**EQCR**	2
EQCR	EQCR	EQCR	EQCR	EQCR	EP	EQCR	EP	**EP**	3
OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	OKAP	**OKAP**	2
OKAP	OKAP	OKAP	OKAP	OKAP	EP	OKAP	EP	**EP**	3

Legend
EP Engagement Partner
EQCR Engagement Quality Control Reviewer
OKAP Key Audit Partner or Key Assurance Partner who is neither the Engagement Partner nor the Engagement Quality Control Reviewer

Notes
1. No transitional provisions apply
2. Transitional paragraph 2 applies
3. Transitional paragraph 3 applies
4. Transitional paragraph 1 applies

Q25. Under paragraph 290.151 and NZ291.139.1, an individual shall not be a key audit partner or key assurance partner for an assurance client that is a public interest entity for more than seven years. After serving in such a role for seven years, these paragraphs require a two-year "time-out" period. Could that individual have a role in which he or she would have regular or on-going contact with management or the audit committee of the client (for example, as the "client relationship partner," "client service partner" or "senior advisory partner") during the two year time-out period?

No. Paragraph 290.151 and NZ291.139.1 states that during the time-out period the individual cannot be a member of the engagement team, be a key audit partner or key assurance partner for the client, participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions, or events, or otherwise directly influence the outcome of the engagement. This would preclude having any role that would enable the individual to exercise the duties or responsibilities of someone in those positions. An individual with a high level of contact with management or the audit committee, such as a client relationship partner, would be able to directly influence the outcome of the engagement.

Q26. PES 1 (Revised) requires rotation of key audit partners, which include other audit partners on the engagement team who make key decisions or judgements on significant matters with respect to the audit. This might include audit partners responsible for significant subsidiaries or divisions. ISA (NZ) 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) states that the group engagement partner is responsible for the direction, supervision, and performance of the group audit. Does this mean that if an audit is conducted in compliance with ISA (NZ) 600, the engagement partner is the only key audit partner (other than the engagement quality control reviewer) subject to the rotation requirements?

No. While ISA (NZ) 600 states that the group engagement partner is responsible for the direction, supervision, and performance of the audit, this does not override PES 1 (Revised)'s definition of a key audit partner and does not eliminate the judgement required in determining whether other partners on the engagement are key audit partners. Depending upon the circumstances, the size of the group, and the role of the individuals, there may be other audit partners who make key decisions or judgements on significant matters with respect to the group financial statements—as may be the case with an audit partner who was responsible for the audit of a significant subsidiary of the group.

Q27. PES 1 (Revised) defines a key audit partner to include partners who make "key decisions or judgements" on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. PES 1 (Revised) does not provide guidance for determining when decisions or judgements are "key" decisions or judgements. What are some examples?

Whether a decision or judgement is a key decision or judgement will depend on the specific facts and circumstances. Professional judgement is required to make that determination.

Generally, the subject matter of the decision or judgement would be significant to the financial statements taken as whole. Examples might be reaching a conclusion about whether there was a material impairment of long- lived assets or about a significant tax uncertainty. Providing advice about such matters to the individual who has the responsibility to make such decisions would not make the person who provides the advice a key audit partner.

Public Interest Entities

Q28. Section 290 contains additional requirements, restrictions, and prohibitions that reflect the extent of public interest in certain entities that are referred to as "public interest entities." If an entity is required to have a statutory audit, does that mean the entity is a public interest entity?

No. For an entity to be a public interest entity under PES 1 (Revised), it is not enough that the entity is required to issue audited financial statements, regardless of whether that requirement is attributable to law, regulation, statute, or other source, such as lenders, creditors, bonding agents, insurance carriers, partnership agreements, or other contracts. In New Zealand, the following entities are Public Interest Entities:

- Any for-profit entity that is required or chooses to report in accordance with Tier 1 under XRB A1[3]; and
- Any other public benefit entity[4] that applies the full financial reporting standards

PES 1 (Revised) does, however, in paragraph 290.26 encourage firms and member bodies to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders.

Network Firms

Q29. Can firms that are members of an association of firms comprise a network that does not include all other firms in the same association?

Yes. This would be the case if some of the firms share profits, costs, or a significant part of professional resources, or have common ownership, control, or management, common quality control policies and procedures, a common business strategy, or use a common brand name. For example, an association may comprise 50 firms that are separate and distinct legal entities. All the firms are listed in the association's global directory and each firm refers to its membership of the association in its marketing and promotional materials. There is no profit or cost sharing, or common ownership, control, or management. Each firm has its own system of quality control policies and procedures and there is no monitoring of such systems across the association. Fifteen of the firms sign audit reports using the name of the association as part of their firm names. The other 35 firms do not use

3 XRB A1 *Application of Accounting Standards.*

4 *XRB A1 for Tier 1 public benefit entities will only be finalised in 2014/2015. It is the intention of the NZAuASB that all Tier 1 entities will meet the definition of a public interest entity, or the purposes of this standard.*

the association name when signing audit reports. The 15 firms are a network for the purposes of PES 1 (Revised) and the other 35 firms are not part of that network.

Q30. If a firm is part of a larger structure that is aimed at co-operation and the firms within that larger structure use a common brand name to sign assurance reports that are not audit or review reports, would that larger structure be deemed to be a network under PES 1 (Revised)?

Yes. Paragraph 291.17 calls for an evaluation to be made of the significance of any threats that the firm has reason to believe are created by network firm interests or relationships and footnote 12 refers to paragraphs 290.13 to 290.24 for guidance on what constitutes a network firm. Under paragraph 290.20, a firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an audit report. Paragraph 290.21 states that care should be taken as to how a firm makes reference to membership of an association of firms or a perception may be created that the firm belongs to a network. The use of a common brand name in signing assurance reports that are not audit or review reports would give the perception to the users of those reports that the firm belongs to a network.

Q31. If a firm is part of a larger structure that is aimed at co-operation and the firms within that larger structure make reference to the larger structure in their stationery and promotional materials, would that larger structure be deemed to be a network under PES 1 (Revised)?

Possibly. The reference to membership of the larger structure in their stationery and other promotional materials would not in itself create a network under PES 1 (Revised). However, if one or more other factors were present, such as the sharing of profits, costs, and/or professional resources, that structure would be deemed to be a network.

Fees—Relative Size

Q32. Under paragraph 290.222, a "post-issuance review" equivalent to an engagement quality control review is one of two safeguards that a firm is required to apply. What would such a review entail?

ISA (NZ) 220, *Quality Control for an Audit of Financial Statements* addresses the responsibilities of the engagement quality control reviewer. In performing a post-issuance review that is equivalent to an engagement quality control review, the reviewer would provide an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the auditor's report. The evaluation would involve:

- discussion of significant matters with the engagement partner; review of the financial statements and the auditor's report;
- review of selected audit documentation relating to the significant judgements of the engagement team and the conclusions it reached; and

- evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the auditor's report was appropriate.

Mergers and Acquisitions

Q33. Paragraphs 290.33-290.38 provide guidance on the actions to be taken when, as a result of a merger or acquisition, an entity becomes a related entity of an audit or review client. In some mergers a new entity is formed that is made up of the two entities involved in the merger, as opposed to one entity becoming a related entity of the audit or review client. Do the provisions in paragraphs 290.33-290.38 apply in such situations?

Yes.

Reasonable and Informed Third Party

Q34. PES 1 (Revised) contains a reasonable and informed third party test—for example, paragraph 100.7 requires an assurance practitioner to apply safeguards to eliminate threats to compliance with the fundamental principles in PES 1 (Revised) or reduce them to an acceptable level. PES 1 (Revised) defines an acceptable level as "a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the assurance practitioner at that time, that compliance with the fundamental principles is not compromised." How should the reasonable and informed third party test be applied?

Application of the test requires professional judgement. The reasonable and informed third party test is intended to establish an unbiased benchmark against which the assurance practitioner judges what action will be acceptable. Thus, for example, the assurance practitioner should consider whether a reasonable and informed third party would consider that the safeguards applied satisfactorily address the threat. It is important to note that the test focuses on information that is currently available and thus prevents the use of hindsight in determining whether the action was appropriate.