

## **AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: PART 4B -- INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

This Standard was issued on 27 February 2020 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 26 March 2020.

An assurance practitioner that is required to apply this Standard is required to apply it to underlying subject matter covering periods for periods beginning on or after 15 June 2021; otherwise, it will be effective on 15 June 2021. Early adoption will be permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of revision of Part 4B of the International Code of Ethics for Professional Accountants, including International Independence Standards by the International Ethics Standards Board for Accountants.

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**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: PART 4B,  
INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND  
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## **A: INTRODUCTION**

This document sets out amendments to Professional and Ethical Standard (PES) *1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. These amendments have been issued as a result of changes made to the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by IESBA.

Section B of this document sets out amendments to Part 4B, *Independence for Assurance Engagements Other Than Audit and Review Engagements*, of PES 1.

# **B: AMENDMENTS TO PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

## **PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

### **SECTION 900**

#### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

##### **Introduction**

##### **General**

- 900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:
- Assurance on an entity’s key performance indicators.
  - Assurance on an entity’s compliance with law or regulation.
  - Assurance on performance criteria, such as value for money, achieved by a public sector body.
  - Assurance on the effectiveness of an entity’s system of internal control.
  - Assurance on an entity’s greenhouse gas statement.
  - An audit of specific elements, accounts or items of a financial statement.
- 900.2 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.
- 900.3 Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. In addition, International Standards on Assurance Engagements (New Zealand), Standards on Assurance Engagements and International Standards on Auditing (New Zealand) establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with Professional and Ethical Standard 3 (Amended). Additionally, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.

- 900.4 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
  - (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional scepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing assurance engagements other than audit or review engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.6 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

### **Description of Assurance Engagements**

900.7 In an assurance engagement, the firm aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the subject matter information. ISAE (NZ) 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard, and Explanatory Guide (EG) Au1A, *Framework for Assurance Engagements*, provides a general description of assurance engagements. An assurance engagement might either be an attestation engagement or a direct engagement.

900.8 In this Part, the term ‘assurance engagement’ refers to assurance engagements other than audit engagements or review engagements.

### **Reports that Include a Restriction on Use and Distribution**

900.9 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

## **Audit and Review Engagements**

900.10 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

NZ 900.10.1 Part 4A also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

## **Requirements and Application Material**

### **General**

**R900.11** A firm performing an assurance engagement shall be independent of the assurance client.

900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information. In this circumstance, the responsible party and that party responsible for the subject matter information are both assurance clients for the purposes of this Part.

900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

**R900.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

**NZ R900.12.1** Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the

significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

#### *Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information*

900.13 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- (a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- (b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of that section to that party.

#### **Network Firms**

**R900.14** When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.14 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

#### **Related Entities**

**R900.15** When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 900.16 to 900.29 are intentionally left blank]**

#### **Period During which Independence is Required**

**R900.30** Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at



the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

**R900.31** If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

**R900.32** Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and non-assurance work as appropriate.

**R900.33** If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

- (a) The firm is satisfied that:
  - (i) The non-assurance service will be completed within a short period of time; or
  - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

**[Paragraphs 900.34 to 900.39 are intentionally left blank]**

### **General Documentation of Independence for Assurance Engagements**

**R900.40** A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

900.40 A1 Documentation provides evidence of the firm's judgements in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

**[Paragraphs 900.41 to 900.49 are intentionally left blank]**

## **Breach of an Independence Provision for Assurance Engagements**

### *When a Firm Identifies a Breach*

**R900.50** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach;
- (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an assurance report.

**R900.51** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

**R900.52** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

**R900.53** If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

### *Documentation*

**R900.54** In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

- (a) The breach;

- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

**R900.55** If the firm continues with the assurance engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgement, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

## **SECTION 905**

### **FEES**

#### **Introduction**

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Fees—Relative Size**

- NZ R905.3.1** As required by R120.10, where the threat cannot be eliminated or safeguards, where available and capable of being applied, cannot reduce the threat to an acceptable level, the firm shall end or decline the engagement.
- 905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 905.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
  - Whether the firm is well established or new.
  - The significance of the client qualitatively and/or quantitatively to the firm.
- 905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.
- 905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Increasing the client base of the partner to reduce dependence on the assurance client.
  - Having an appropriate reviewer who was not an assurance team member review the work.

##### **Fees—Overdue**

- 905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The

requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

905.4 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

**R905.5** When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

### **Contingent Fees**

905.6 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

**R905.7** A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

**R905.8** A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement.

905.9 A1 Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

905.9 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

## **SECTION 906**

### **GIFTS AND HOSPITALITY**

#### **Introduction**

- 906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 906.2 Accepting gifts and hospitality from an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirement and Application Material**

- R906.3** A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.
- 906.3 A1 Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 906.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

## **SECTION 907**

### **ACTUAL OR THREATENED LITIGATION**

#### **Introduction**

- 907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

#### **Application Material**

##### **General**

- 907.3 A1 The relationship between client management and assurance team members must be characterised by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 907.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
  - Whether the litigation relates to a prior assurance engagement.
- 907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.
- 907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.



## **SECTION 910**

### **FINANCIAL INTERESTS**

#### **Introduction**

- 910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 910.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 910.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:
- The role of the individual holding the financial interest.
  - Whether the financial interest is direct or indirect.
  - The materiality of the financial interest.

#### **Financial Interests Held by the Firm, Assurance Team Members and Immediate Family**

- R910.4** A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
- (a) The firm; or
  - (b) An assurance team member or any of that individual’s immediate family.

#### **Financial Interests in an Entity Controlling an Assurance Client**

- R910.5** When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual’s immediate family shall hold a direct or material indirect financial interest in that entity.

## **Financial Interests Held as Trustee**

**R910.6** Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the assurance team member or any of that individual's immediate family, or the firm;
- (b) The interest in the assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, the assurance team member or any of that individual's immediate family, or the firm.

## **Financial Interests Received Unintentionally**

**R910.7** If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- (a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

## **Financial Interests – Other Circumstances**

### *Close Family*

910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.

910.8 A2 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

- Removing the individual from the assurance team.

910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

*Other Individuals*

910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:

- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
- Individuals with a close personal relationship with an assurance team member.

910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.

910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
- Having an appropriate reviewer review the work of the assurance team member.

## **SECTION 911**

### **LOANS AND GUARANTEES**

#### **Introduction**

- 911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 911.2 A loan or a guarantee of a loan with an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 911.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

##### **Loans and Guarantees with an Assurance Client**

- R911.4** A firm, an assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:
- (a) The firm or the individual making the loan or guarantee, as applicable; and
  - (b) The client.

##### **Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution**

- R911.5** A firm, an assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.
- 911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.
- 911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

##### *Deposit or Brokerage Accounts*

- R911.6** A firm, an assurance team member, or any of that individual’s immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker,

or similar institution, unless the deposit or account is held under normal commercial terms.

**Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution**

**R911.7** A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- (a) The firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

## **SECTION 920**

### **BUSINESS RELATIONSHIPS**

#### **Introduction**

- 920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 920.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
  - Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
  - Distribution or marketing arrangements under which the firm distributes or markets the client’s products or services, or the client distributes or markets the firm’s products or services.

##### **Firm, Assurance Team Member or Immediate Family Business Relationships**

- R920.4** A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

##### **Buying Goods or Services**

- 920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual’s immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm’s

length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

## **SECTION 921**

### **FAMILY AND PERSONAL RELATIONSHIPS**

#### **Introduction**

- 921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.
- 921.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the assurance team.
  - The role of the family member or other individual within the assurance client, and the closeness of the relationship.

##### **Immediate Family of an Assurance Team Member**

- 921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the underlying subject matter of the assurance engagement.
- 921.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the assurance team member.
- 921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R921.5** An individual shall not participate as an assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the assurance client;
  - (b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or



- (c) Was in such a position during any period covered by the engagement or the subject matter information.

### **Close Family of an Assurance Team Member**

921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:

- (a) A director or officer of the assurance client; or
- (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

### **Other Close Relationships of an Assurance Team Member**

**R921.7** An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

- (a) A director or officer of the assurance client; or
- (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.
- The role of the assurance team member.

921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

### **Relationships of Partners and Employees of the Firm**

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

- (a) A partner or employee of the firm who is not an assurance team member; and
- (b) Any of the following individuals at the assurance client:
  - i. A director or officer;
  - ii. An employee in a position to exert significant influence over the underlying subject matter or an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.8 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the assurance team.
- The position of the partner or employee within the firm.
- The role of the individual within the client.

921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

## **SECTION 922**

### **RECENT SERVICE WITH AN ASSURANCE CLIENT**

#### **Introduction**

- 922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Service During the Period Covered by the Assurance Report**

- R922.3** The assurance team shall not include an individual who, during the period covered by the assurance report:
- (a) Had served as a director or officer of the assurance client; or
  - (b) Was an employee in a position to exert significant influence over underlying subject matter or, in an attestation engagement, employee in a position to exert significant influence over the subject matter information of the assurance engagement.

##### **Service Prior to the Period Covered by the Assurance Report**

- 922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:
- (a) Had served as a director or officer of the assurance client; or
  - (b) Was an employee in a position to exert significant influence over underlying subject matter or, in an attestation engagement, employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

- 922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

- 922.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

## **SECTION 923**

### **SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT**

#### **Introduction**

- 923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 923.2 Serving as a director or officer of an assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Service as Director or Officer**

- R923.3** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

##### **Service as Company Secretary**

- R923.4** A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
  - (b) Management makes all decisions; and
  - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-assurance Services to an Assurance Client*.)

## SECTION 924

### EMPLOYMENT WITH AN ASSURANCE CLIENT

#### Introduction

- 924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:
- A director or officer of the assurance client.
  - An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

##### *Former Partner or Assurance Team Member Restrictions*

- R924.4** If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:
- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement, the individual shall not continue to participate in the firm's business or professional activities.
- 924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.
- 924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.
- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.

- Any involvement the individual will have with the assurance team.
- The length of time since the individual was an assurance team member or partner of the firm.
- The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm.
- Modifying the plan for the assurance engagement.
- Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former assurance team member.

*Assurance Team Members Entering Employment Negotiations with a Client*

**R924.5** A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that assurance team member while on the team.

## **SECTION 940**

### **LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT**

#### **Introduction**

- 940.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 940.3 A1 A familiarity threat might be created as a result of an individual's long association with:
- (a) The assurance client;
  - (b) The assurance client's senior management; or
  - (c) The underlying subject matter or, in an attestation engagement, subject matter information of the assurance engagement.
- 940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.
- 940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- The nature of the assurance engagement.
  - How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
  - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
  - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
  - The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
  - The nature, frequency and extent of interaction between the individual and the assurance client.
  - Whether the nature or complexity of the underlying subject matter or subject matter information has changed.

- Whether there have been any recent changes in the individual or individuals at the assurance client who are responsible for the underlying subject matter or, in an attestation engagement, the subject matter information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an assurance team member and an individual at the assurance client who is in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, the subject matter information, would be reduced by the departure of that individual from the client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

**R940.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide quality control for the assurance engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.



## SECTION 950

### PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

#### Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- R950.3** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.
- 950.3 A1 The requirements and application material in this section assist firms in analysing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.
- 950.3 A2 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

##### *Evaluating Threats*

- 950.4 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:
- The nature, scope and purpose of the service.
  - The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
  - The legal and regulatory environment in which the service is provided.
  - Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
    - The extent to which the outcome of the service will have a material or significant effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
    - The extent of the assurance client's involvement in determining significant matters of judgement.

- The level of expertise of the client's management and employees with respect to the type of service provided.

#### Materiality in Relation to an Assurance Client's Information

950.4 A2 The concept of materiality in relation to an assurance client's subject matter information is addressed in *International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

#### Multiple Non-assurance Services Provided to the Same Assurance Client

950.4 A3 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

#### *Addressing Threats*

950.5 A1 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.

#### *Prohibition on Assuming Management Responsibilities*

**R950.6** A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

950.6 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).

**R950.7** To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:
  - (i) The objectives, nature and results of the services; and
  - (ii) The respective client and firm responsibilities.However, the individual is not required to possess the expertise to perform or re-perform the services.
- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

*Other Considerations Related to Providing Specific Non-Assurance Services*

950.8 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

- (a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.
- (b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

## **SECTION 990**

### **REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)**

#### **Introduction**

- 990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an “eligible assurance engagement.”

#### **Requirements and Application Material**

##### **General**

- R990.3** When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:
- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
  - (b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.
- 990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.
- R990.4** Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.
- 990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm’s engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

**R990.5** When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

**R990.6** If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

### **Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships**

**R990.7** When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

**R990.8** When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

## GLOSSARY

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Acceptable level	A level at which an assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by assurance practitioners with a view to procuring assurance business.
Appropriate reviewer	<p><i>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner.</i></p> <p><i>This term is described in paragraph 300.8 A4.</i></p>
Assurance client	The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).
Assurance engagement	<p>An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in or to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).</p> <p>(ISAE (NZ) 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and Explanatory Guide (EG) Au1 <i>Overview of Auditing and Assurance Standards</i> provides a general description of assurance engagements to which <i>International Standards on Auditing (New Zealand)</i> (ISAs (NZ)), <i>International Standards on Review Engagements (New Zealand)</i> (ISREs (NZ)), <i>New Zealand Standard on Review Engagements (NZ SRE)</i>, <i>International Standards on Assurance Engagements (New Zealand)</i> (ISAEs (NZ)), and <i>Standards on Assurance Engagements (SAEs)</i> apply.)</p> <p><i>In Part 4B, the term ‘assurance engagement’ refers to assurance engagements that are not audit or review engagements.</i></p>

[NZ] Assurance practitioner	A person or organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements.
[NZ] Assurance services	Comprise of any assurance engagements performed by an assurance practitioner.
Assurance team	<ul style="list-style-type: none"> <li>(a) All members of the engagement team for the assurance engagement;</li> <li>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including: <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;</li> <li>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</li> <li>(iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</li> </ul> </li> </ul>
Attestation engagement	<p>An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The assurance practitioner's conclusion may be phrased in terms of:</p> <ul style="list-style-type: none"> <li>(a) The underlying subject matter and the applicable criteria;</li> <li>(b) The subject matter information and the applicable criteria; or</li> <li>(c) A statement made by the appropriate party(ies).</li> </ul>
[NZ] Audit client	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control. <i>(See also paragraph R400.20.)</i></p>



Audit engagement	A reasonable assurance engagement in which an assurance practitioner expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with <i>International Standards on Auditing (New Zealand)</i> . This includes a Statutory Audit, which is an audit required by legislation or other regulation.
Audit team	<ul style="list-style-type: none"> <li>(a) All members of the engagement team for the audit engagement;</li> <li>(b) All others within a firm who can directly influence the outcome of the audit engagement, including: <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);</li> <li>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</li> <li>(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</li> </ul> </li> <li>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</li> </ul>
Close family	A parent, child or sibling who is not an immediate family member.
Conceptual framework	<i>This term is described in Section 120.</i>
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period	<i>This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.</i>
Criteria	In an assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.

Direct engagement	An assurance engagement in which the assurance practitioner measures or evaluates the underlying subject matter against the applicable criteria and the assurance practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none"> <li>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li> <li>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.</li> </ul>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement partner <sup>1</sup>	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.
Engagement period (Assurance Engagements Other than Audit and Review Engagements)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

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<sup>1</sup> Engagement partner: should be read as referring to their public sector equivalents where relevant.

Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgements the engagement team made and the conclusions it reached in formulating the report.
Engagement team	<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>
Existing accountant	An accountant currently holding an audit appointment or carrying out accounting, tax, consulting or similar non-assurance services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the assurance practitioner in obtaining sufficient appropriate evidence.
Financial interest	An interest in an 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.
Financial statements	<p>A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.</p> <p><i>The term does not refer to specific elements, accounts or items of a financial statement.</i></p>
Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	<p>(a) A sole practitioner, partnership or corporation undertaking assurance engagements;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p>

- (c) An entity controlled by such parties, through ownership, management or other means.

*Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.*

[NZ] FMC reporting entity considered to have a higher level of public accountability

A FMC reporting entity of a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- Under section 461K of the Financial Markets Conduct Act 2013; or
- By notice issued by the Financial Markets Authority under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Fundamental principles *This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:*

*Integrity* *R111.1*

*Objectivity* *R112.1*

*Professional competence and due* *R113.1*

*care* *R114.1*

*Confidentiality* *R115.1*

*Professional behaviour*

Historical financial information

Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family

A spouse (or equivalent) or dependent.

Independence

Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit or assurance team member’s, integrity, objectivity or professional scepticism has been compromised.

*As set out in paragraphs 400.5 and 900.4, references to an individual or firm being “independent” mean that the individual or firm has complied with Parts 4A and 4B, as applicable.*

Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
Inducement	<p>An object, situation, or action that is used as a means to influence another individual’s behaviour, but not necessarily with the intent to improperly influence that individual’s behaviour.</p> <p><i>Inducements can range from minor acts of hospitality between assurance practitioners and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</i></p> <ul style="list-style-type: none"><li>• <i>Gifts.</i></li><li>• <i>Hospitality.</i></li><li>• <i>Entertainment.</i></li><li>• <i>Political or charitable donations.</i></li><li>• <i>Appeals to friendship and loyalty.</i></li><li>• <i>Employment or other commercial opportunities.</i></li><li>• <i>Preferential treatment, rights or privileges.</i></li></ul>
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team 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. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
[NZ] Key assurance partner	The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.
Listed entity	<i>[Deleted by the NZAuASB]</i>
May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>
Might	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not</i>

*ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.*

Network	<p>A larger structure:</p> <ul style="list-style-type: none"><li>(a) That is aimed at co-operation; and</li><li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li></ul>
Network firm	<p>A firm or entity that belongs to a network.</p> <p><i>For further information, see paragraphs 400.50 A1 to 400.54 A1.</i></p>
Non-compliance with laws and regulations	<p><i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i></p> <ul style="list-style-type: none"><li>(a) <i>A client;</i></li><li>(b) <i>Those charged with governance of a client;</i></li><li>(c) <i>Management of a client; or</i></li><li>(d) <i>Other individuals working for or under the direction of a client.</i></li></ul> <p><i>This term is described in paragraph 360.5 A1.</i></p>
[NZ] Offer document	<p>A document, such as a product disclosure statement or a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.</p>
Office	<p>A distinct sub-group, whether organised on geographical or practice lines.</p>
Predecessor accountant	<p>A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.</p>
Professional accountant	<p><i>[Deleted by the NZAuASB]</i></p>
Professional accountant in business	<p><i>[Deleted by the NZAuASB]</i></p>

Professional accountant in public practice	<i>[Deleted by the NZAuASB]</i>
Professional activity	An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, tax, management consulting, and financial management.
Professional services	Professional activities performed for clients.
[NZ] Proposed assurance practitioner	An assurance practitioner who is considering accepting an audit, review or assurance appointment for a prospective client (or in some cases, an existing client).
[NZ] Public interest entity	Any entity that meets the Tier 1 criteria in accordance with XRB A1 <sup>2</sup> and is not eligible to report in accordance with the accounting requirements of another tier.
Reasonable and informed third party	<p><i>The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.</i></p> <p><i>These terms are described in paragraph R120.5 A4.</i></p>
Reasonable and informed third party test	
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> <li>(a) An entity that has direct or indirect control over the client if the client is material to such entity;</li> <li>(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;</li> <li>(c) An entity over which the client has direct or indirect control;</li> <li>(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li> </ul>

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<sup>2</sup> XRB A1 *Application of the Accounting Standards Framework*

	(e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Responsible party	In an assurance engagement, the party responsible for the underlying subject matter.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with <i>International Standards on Review Engagements (New Zealand) 2400</i> or New Zealand Standard on Review Engagements 2410, in which an assurance practitioner expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance practitioner’s attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	<p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</p> <p style="padding-left: 40px;">(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);</p> <p style="padding-left: 40px;">(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p style="padding-left: 40px;">(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>
Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraph 120.10 A2.</i></p>
Substantial harm	<i>This term is described in paragraph 360.5 A3.</i>



Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.										
Subject matter information	The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.										
Those charged with governance	The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.										
Threats	<p><i>This term is described in paragraph 120.6 A3 and includes the following categories:</i></p> <table border="0" style="margin-left: 40px;"> <tr> <td><i>Self interest</i></td> <td><i>120.6 A3(a)</i></td> </tr> <tr> <td><i>Self-review</i></td> <td><i>120.6 A3(b)</i></td> </tr> <tr> <td><i>Advocacy</i></td> <td><i>120.6 A3(c)</i></td> </tr> <tr> <td><i>Familiarity</i></td> <td><i>120.6 A3(d)</i></td> </tr> <tr> <td><i>Intimidation</i></td> <td><i>120.6 A3(e)</i></td> </tr> </table>	<i>Self interest</i>	<i>120.6 A3(a)</i>	<i>Self-review</i>	<i>120.6 A3(b)</i>	<i>Advocacy</i>	<i>120.6 A3(c)</i>	<i>Familiarity</i>	<i>120.6 A3(d)</i>	<i>Intimidation</i>	<i>120.6 A3(e)</i>
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<i>Advocacy</i>	<i>120.6 A3(c)</i>										
<i>Familiarity</i>	<i>120.6 A3(d)</i>										
<i>Intimidation</i>	<i>120.6 A3(e)</i>										
Time-on period	<i>This term is described in paragraph R540.5.</i>										
Underlying subject matter	The phenomenon that is measured or evaluated by applying criteria.										

## **C: EFFECTIVE DATE**

Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after 15 June 2021; otherwise, it will be effective on 15 June 2021. Early adoption will be permitted.