

**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: PART 2, ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM**

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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 19 November 2020.

The amendments in this Standard are effective on 15 December 2020. Early adoption is 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 to incorporate Part 2 of the *International Code of Ethics for Professional Accountants, (including International Independence Standards)* into Professional and Ethical Standard 1.

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**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: PART 2,  
ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES  
PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM**

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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 made to incorporate Part 2 of the *International Code of Ethics for Professional Accountants, (including International Independence Standards)* into Professional and Ethical Standard 1.

Section B of this document sets out Part 2, *Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm*

**B: PART 2, ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM**

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## **PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM**

### **SECTION 200**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM.**

##### **Introduction**

- 200.1 This Part of the Code sets out requirements and application material for assurance practitioners, performing professional activities pursuant to their relationship with the firm, when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of assurance practitioners. Assurance practitioners might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organisations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 An assurance practitioner might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organisation. The legal form of the relationship of the assurance practitioner with the employing organisation has no bearing on the ethical responsibilities placed on the assurance practitioner.
- 200.4 *[Amended by the NZAuASB]*
- NZ 200.4 In this Part, the term “assurance practitioner” refers to an individual who is an assurance practitioner when performing professional activities pursuant to the assurance practitioner’s relationship with the assurance practitioner’s firm, whether as a contractor, employee or owner. The provisions in Part 2 deal mainly with matters that are relevant to professional activities that occur internally within the employing organisation. A number of those provisions may be less relevant to an assurance practitioner. The assurance practitioner uses professional judgement when determining which of those provisions are relevant to the assurance practitioner. More information on when Part 2 is applicable to assurance practitioners is set out in paragraphs R120.4, R300.5 and 300.5 A1.

## Requirements and Application Material

### General

- R200.5** An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.
- 200.5 A1 An assurance practitioner has a responsibility to further the legitimate objectives of the assurance practitioner's employing organisation. The Code does not seek to hinder assurance practitioners from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.
- 200.5 A2 Assurance practitioners may promote the position of the employing organisation when furthering the legitimate goals and objectives of their employing organisation, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.
- 200.5 A3 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, assurance practitioners are expected to encourage and promote an ethics-based culture in the organisation. Examples of actions that might be taken include the introduction, implementation and oversight of:
- Ethics education and training programs.
  - Ethics and whistle-blowing policies.
  - Policies and procedures designed to prevent non-compliance with laws and regulations.

### Identifying Threats

- 200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for an assurance practitioner when undertaking a professional activity:
- (a) Self-interest Threats
- An assurance practitioner holding a financial interest in, or receiving a loan or guarantee from, the employing organisation.
  - An assurance practitioner participating in incentive compensation arrangements offered by the employing organisation.
  - An assurance practitioner having access to corporate assets for personal use.
  - An assurance practitioner being offered a gift or special treatment from a supplier of the employing organisation.

- (b) Self-review Threats
  - An assurance practitioner determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) Advocacy Threats
  - An assurance practitioner having the opportunity to manipulate information in a prospectus in order to obtain favourable financing.
- (d) Familiarity Threats
  - An assurance practitioner being responsible for the financial reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial reporting of the organisation.
  - An assurance practitioner having a long association with individuals influencing business decisions.
- (e) Intimidation Threats
  - An assurance practitioner or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
    - The application of an accounting principle.
    - The way in which financial information is to be reported.
  - An individual attempting to influence the decision-making process of the assurance practitioner, for example with regard to the awarding of contracts or the application of an accounting principle.

### **Evaluating Threats**

- 200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.
- 200.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.
- 200.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:
- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
  - Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
  - Policies and procedures to implement and monitor the quality of employee performance.



- Systems of corporate oversight or other oversight structures and strong internal controls.
- Recruitment procedures emphasising the importance of employing high calibre competent personnel.
- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and code of conduct policies.

200.7 A4 Assurance practitioners might consider obtaining legal advice where they believe that unethical behaviour or actions by others have occurred, or will continue to occur, within the employing organisation.

### **Addressing Threats**

200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.

200.8 A2 In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for an assurance practitioner to resign from the employing organisation.

### **Communicating with Those Charged with Governance**

**R200.9** When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the employing organisation's governance structure with whom to communicate. If the assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.9 A1 In determining with whom to communicate, an assurance practitioner might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

200.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

**R200.10** If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.

200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organisation, for example, a small business where a single owner

manages the organisation and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the assurance practitioner has satisfied the requirement to communicate with those charged with governance.

## **SECTION 210**

### **CONFLICTS OF INTEREST**

#### **Introduction**

- 210.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 210.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) An assurance practitioner undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
  - (b) The interest of an assurance practitioner with respect to a particular matter and the interests of a party for whom the assurance practitioner undertakes a professional activity related to that matter are in conflict.
- A party might include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.
- 210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

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

##### **General**

- R210.4** An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.
- 210.4 A1 Examples of circumstances that might create a conflict of interest include:
- Serving in a management or governance position for two employing organisations and acquiring confidential information from one organisation that might be used by the assurance practitioner to the advantage or disadvantage of the other organisation.
  - Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the assurance practitioner to assist them to dissolve their partnership.
  - Preparing financial information for certain members of management of the assurance practitioner's employing organisation who are seeking to undertake a management buy-out.
  - Being responsible for selecting a vendor for the employing organisation when an immediate family member of the assurance practitioner might benefit financially from the transaction.
  - Serving in a governance capacity in an employing organisation that is approving certain investments for the company where one of those investments will increase

the value of the investment portfolio of the assurance practitioner or an immediate family member.

### **Conflict Identification**

**R210.5** An assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

**R210.6** An assurance practitioner shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

### **Threats Created by Conflicts of Interest**

210.7 A1 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

### **Disclosure and Consent**

#### *General*

210.8 A1 It is generally necessary to:

- (a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organisation affected by a conflict; and
- (b) Obtain consent from the relevant parties for the assurance practitioner to undertake the professional activity when safeguards are applied to address the threat.

210.8 A2 Consent might be implied by a party's conduct in circumstances where the assurance practitioner has sufficient evidence to conclude that the parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

210.8 A3 If such disclosure or consent is not in writing, the assurance practitioner is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

*Other Considerations*

210.9 A1 When addressing a conflict of interest, the assurance practitioner is encouraged to seek guidance from within the employing organisation or from others, such as a professional body, legal counsel or another assurance practitioner. When making such disclosures or sharing information within the employing organisation and seeking guidance of third parties, the principle of confidentiality applies.

## **SECTION 220**

### **PREPARATION AND PRESENTATION OF INFORMATION**

#### **Introduction**

- 220.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

##### **General**

- 220.3 A1 Assurance practitioners at all levels in an employing organisation are involved in the preparation or presentation of information both within and outside the organisation.
- 220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:
- Management and those charged with governance.
  - Investors and lenders or other creditors.
  - Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organisation's state of affairs and in making decisions concerning the organisation. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
  - Decision support analyses.
  - Budgets and forecasts.
  - Information provided to the internal and external auditors.
  - Risk analyses.
  - General and special purpose financial statements.
  - Tax returns.
  - Reports filed with regulatory bodies for legal and compliance purposes.
- 220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

**R220.4** When preparing or presenting information, an assurance practitioner shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgement to:
  - (i) Represent the facts accurately and completely in all material respects;
  - (ii) Describe clearly the true nature of business transactions or activities; and
  - (iii) Classify and record information in a timely and proper manner; and
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

### **Use of Discretion in Preparing or Presenting Information**

**R220.5** Preparing or presenting information might require the exercise of discretion in making professional judgements. The assurance practitioner shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.

**R220.6** When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the assurance practitioner shall exercise professional judgement to identify and consider:

- (a) The purpose for which the information is to be used;

- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgements.

220.6 A2 The assurance practitioner might also consider clarifying the intended audience, context and purpose of the information to be presented.

### **Relying on the Work of Others**

**R220.7** An assurance practitioner who intends to rely on the work of others, either internal or external to the employing organisation, shall exercise professional judgement to determine what steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

### **Addressing Information that Is or Might be Misleading**

**R220.8** When the assurance practitioner knows or has reason to believe that the information with which the assurance practitioner is associated is misleading, the assurance practitioner shall take appropriate actions to seek to resolve the matter.

220.8 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the assurance practitioner's superior and/or the appropriate level(s) of management within the assurance practitioner's employing organisation or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - Having the information corrected.
  - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organisation (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.8 A2 The assurance practitioner might determine that the employing organisation has not taken appropriate action. If the assurance practitioner continues to have reason to believe that the information is misleading, the following further actions might be



appropriate provided that the assurance practitioner remains alert to the principle of confidentiality:

- Consulting with:
  - A relevant professional body.
  - The internal or external auditor of the employing organisation.
  - Legal counsel.
- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

**R220.9** If after exhausting all feasible options, the assurance practitioner determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the assurance practitioner shall refuse to be or to remain associated with the information.

220.9 A1 In such circumstances, it might be appropriate for an assurance practitioner to resign from the employing organisation.

### **Documentation**

220.10 A1 The assurance practitioner is encouraged to document:

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the assurance practitioner attempted to address the matter(s).

### **Other Considerations**

220.11 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.11 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.11 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

## SECTION 230

### ACTING WITH SUFFICIENT EXPERTISE

#### Introduction

- 230.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- R230.3** An assurance practitioner shall not intentionally mislead an employing organisation as to the level of expertise or experience possessed.
- 230.3 A1 The principle of professional competence and due care requires that an assurance practitioner only undertake significant tasks for which the assurance practitioner has, or can obtain, sufficient training or experience.
- 230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if an assurance practitioner has:
- Insufficient time for performing or completing the relevant duties.
  - Incomplete, restricted or otherwise inadequate information for performing the duties.
  - Insufficient experience, training and/or education.
  - Inadequate resources for the performance of the duties.
- 230.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- The extent to which the assurance practitioner is working with others.
  - The relative seniority of the assurance practitioner in the business.
  - The level of supervision and review applied to the work.
- 230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Obtaining assistance or training from someone with the necessary expertise.
  - Ensuring that there is adequate time available for performing the relevant duties.
- R230.4** If a threat to compliance with the principle of professional competence and due care cannot be addressed, an assurance practitioner shall determine whether to decline to perform the duties in question. If the assurance practitioner determines that declining is appropriate, the assurance practitioner shall communicate the reasons.

## **Other Considerations**

230.5 A1 The requirements and application material in Section 270 apply when an assurance practitioner is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

## **SECTION 240**

### **FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING**

#### **Introduction**

- 240.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

##### **General**

- R240.3** An assurance practitioner shall not manipulate information or use confidential information for personal gain or for the financial gain of others.
- 240.3 A1 Assurance practitioners might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.
- 240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the assurance practitioner or an immediate or close family member:
- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
  - Holds a direct or indirect financial interest in the employing organisation and the value of that financial interest might be directly affected by decisions made by the assurance practitioner.
  - Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the assurance practitioner.
  - Holds, directly or indirectly, deferred bonus share rights or share options in the employing organisation, the value of which might be affected by decisions made by the assurance practitioner.
  - Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximise the value of the employing organisation's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
  - All relevant interests.
  - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

## **SECTION 250**

### **INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY**

#### **Introduction**

- 250.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 250.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.
- 250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires an assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

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

##### **General**

- 250.4 A1 An inducement is 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. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment or other commercial opportunities.
  - Preferential treatment, rights or privileges.

##### **Inducements Prohibited by Laws and Regulations**

- R250.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the assurance practitioner encounters such circumstances.

## **Inducements Not Prohibited by Laws and Regulations**

250.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

### *Inducements with Intent to Improperly Influence Behaviour*

**R250.7** An assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the assurance practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

**R250.8** An assurance practitioner shall not accept, or encourage others to accept, any inducement that the assurance practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

250.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for an assurance practitioner in considering what constitutes unethical behaviour on the part of the assurance practitioner and, if necessary by analogy, other individuals.

250.9 A2 A breach of the fundamental principle of integrity arises when an assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

250.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgement. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organisation, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the inducement.
- Whether the assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organisation.

- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

#### Consideration of Further Actions

250.10 A1 If the assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R250.7 and R250.8 are met.

250.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management or those charged with governance of the employing organisation of the assurance practitioner or the offeror regarding the offer.
- Amending or terminating the business relationship with the offeror.

#### *Inducements with No Intent to Improperly Influence Behaviour*

250.11 A1 The requirements and application material set out in the conceptual framework apply when an assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

250.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

250.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the assurance practitioner has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
  - An assurance practitioner is offered part-time employment by a vendor.
- Familiarity threats
  - An assurance practitioner regularly takes a customer or supplier to sporting events.
- Intimidation threats
  - An assurance practitioner accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

250.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 250.9 A3 for determining intent.

250.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.



- Transferring responsibility for any business-related decision involving the counterparty to another individual who the assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

250.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management or those charged with governance of the employing organisation of the assurance practitioner or of the counterparty about offering or accepting an inducement.
- Registering the inducement in a log maintained by the employing organisation of the assurance practitioner or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the assurance practitioner with respect to the individual or organisation from which the assurance practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

### **Immediate or Close Family Members**

**R250.12** An assurance practitioner shall remain alert to potential threats to the assurance practitioner's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the assurance practitioner to a counterparty with whom the assurance practitioner has a professional relationship; or
- (b) To an immediate or close family member of the assurance practitioner by a counterparty with whom the assurance practitioner has a professional relationship.

**R250.13** Where the assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the assurance practitioner or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the assurance practitioner shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the assurance

practitioner or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The assurance practitioner and the immediate or close family member;
- (b) The immediate or close family member and the counterparty; and
- (c) The assurance practitioner and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the assurance practitioner by a counterparty with whom the assurance practitioner is negotiating a significant contract might indicate such intent.

250.13 A2 The application material in paragraph 250.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty even if the immediate or close family member has followed the advice given pursuant to paragraph R250.13.

#### *Application of the Conceptual Framework*

250.14 A1 Where the assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the assurance practitioner pursuant to paragraph R250.13; or
- (b) The assurance practitioner does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty exists.

250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 250.13 A1.

#### **Other Considerations**

250.15 A1 If an assurance practitioner is offered an inducement by the employing organisation relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 apply.

250.15 A2 If an assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organisation, the requirements and application material set out in Section 260 apply.

250.15 A3 If an assurance practitioner faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 apply.

## **SECTION 260**

### **RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS**

#### **Introduction**

- 260.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties.

#### **Objectives of the Assurance Practitioner in Relation to Non-compliance with Laws and Regulations**

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:
- (a) To comply with the principles of integrity and professional behaviour;
  - (b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

## Requirements and Application Material

### General

260.5 A1 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:

- (a) The assurance practitioner’s employing organisation;
- (b) Those charged with governance of the employing organisation;
- (c) Management of the employing organisation; or
- (d) Other individuals working for or under the direction of the employing organisation.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R260.6** In some jurisdictions, there are legal or regulatory provisions governing how assurance practitioners are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

- 260.6 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.
- 260.7 A1 This section applies regardless of the nature of the employing organisation, including whether or not it is a public interest entity.
- 260.7 A2 An assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organisation, its stakeholders and the general public.
- 260.7 A3 This section does not address:
- (a) Personal misconduct unrelated to the business activities of the employing organisation; and
  - (b) Non-compliance by parties other than those specified in paragraph 260.5 A1.
- The assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **Responsibilities of the Employing Organisation’s Management and Those Charged with Governance**

- 260.8 A1 The employing organisation’s management, with the oversight of those charged with governance, is responsible for ensuring that the employing organisation’s business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:
- (a) The employing organisation;
  - (b) An individual charged with governance of the employing organisation;
  - (c) A member of management; or
  - (d) Other individuals working for or under the direction of the employing organisation.

### **Responsibilities of All Assurance Practitioners**

- R260.9** If protocols and procedures exist within the assurance practitioner’s employing organisation to address non-compliance or suspected non-compliance, the assurance practitioner shall consider them in determining how to respond to such non-compliance.
- 260.9 A1 Many employing organisations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.
- R260.10** Where an assurance practitioner becomes aware of a matter to which this section applies, the steps that the assurance practitioner takes to comply with this section shall

be taken on a timely basis. For the purpose of taking timely steps, the assurance practitioner shall have regard to the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or the general public.

### **Responsibilities of Senior Assurance Practitioners**

260.11 A1 Senior assurance practitioners are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other assurance practitioners within the employing organisation. This is because of senior assurance practitioners' roles, positions and spheres of influence within the employing organisation.

#### *Obtaining an Understanding of the Matter*

**R260.12** If, in the course of carrying out professional activities, a senior assurance practitioner becomes aware of information concerning non-compliance or suspected non-compliance, the senior assurance practitioner shall obtain an understanding of the matter. This understanding shall include:

- (a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;
- (b) The application of the relevant laws and regulations to the circumstances; and
- (c) An assessment of the potential consequences to the employing organisation, investors, creditors, employees or the wider public.

260.12 A1 A senior assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a level of understanding of laws and regulations greater than that which is required for the assurance practitioner's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.12 A2 Depending on the nature and significance of the matter, the senior assurance practitioner might cause, or take appropriate steps to cause, the matter to be investigated internally. The assurance practitioner might also consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

#### *Addressing the Matter*

**R260.13** If the senior assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall, subject to paragraph R260.9, discuss the matter with the assurance practitioner's immediate superior, if any. If the assurance practitioner's immediate superior appears to be involved in the matter, the

assurance practitioner shall discuss the matter with the next higher level of authority within the employing organisation.

260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.

**R260.14** The senior assurance practitioner shall also take appropriate steps to:

- (a) Have the matter communicated to those charged with governance;
- (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
- (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
- (d) Reduce the risk of re-occurrence; and
- (e) Seek to deter the commission of the non-compliance if it has not yet occurred.

260.14 A1 The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfil their responsibilities.

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

**R260.15** In addition to responding to the matter in accordance with the provisions of this section, the senior assurance practitioner shall determine whether disclosure of the matter to the employing organisation's external auditor, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior assurance practitioner's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

#### *Determining Whether Further Action Is Needed*

**R260.16** The senior assurance practitioner shall assess the appropriateness of the response of the assurance practitioner's superiors, if any, and those charged with governance.

260.16 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior assurance practitioner's superiors, if any, and those charged with governance include whether:

- The response is timely.
- They have taken or authorised appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

**R260.17** In light of the response of the senior assurance practitioner's superiors, if any, and those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.

260.17 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the employing organisation.
- Whether the senior assurance practitioner continues to have confidence in the integrity of the assurance practitioner's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organisation, investors, creditors, employees or the general public.

260.17 A2 Examples of circumstances that might cause the senior assurance practitioner no longer to have confidence in the integrity of the assurance practitioner's superiors and those charged with governance include situations where:

- The assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

**R260.18** The senior assurance practitioner shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the assurance practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the assurance practitioner has acted appropriately in the public interest.

260.18 A1 Further action that the senior assurance practitioner might take includes:

- Informing the management of the parent entity of the matter if the employing organisation is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Resigning from the employing organisation.

260.18 A2 Resigning from the employing organisation is not a substitute for taking other actions that might be needed to achieve the senior assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the assurance practitioner. In such circumstances, resignation might be the only available course of action.



## Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgements, the senior assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

## Determining Whether to Disclose the Matter to an Appropriate Authority

260.20 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

260.20 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The employing organisation is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The employing organisation is regulated and the matter is of such significance as to threaten its license to operate.
- The employing organisation is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organisation's securities or pose a systemic risk to the financial markets.
- It is likely that the employing organisation would sell products that are harmful to public health or safety.
- The employing organisation is promoting a scheme to its clients to assist them in evading taxes.

260.20 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.

- Whether there are actual or potential threats to the physical safety of the senior assurance practitioner or other individuals.

**R260.21** If the senior assurance practitioner determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

#### *Imminent Breach*

**R260.22** In exceptional circumstances, the senior assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organisation, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

#### *Documentation*

260.23 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior assurance practitioner is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the assurance practitioner's superiors, if any, and those charged with governance and other parties.
- How the assurance practitioner's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R260.17.

#### **Responsibilities of Assurance Practitioners Other than Senior Assurance Practitioners**

**R260.24** If, in the course of carrying out professional activities, an assurance practitioner becomes aware of information concerning non-compliance or suspected non-compliance, the assurance practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

260.24 A1 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a

level of understanding of laws and regulations greater than that which is required for the assurance practitioner's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.24 A2 Depending on the nature and significance of the matter, the assurance practitioner might consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

**R260.25** If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the assurance practitioner's immediate superior appears to be involved in the matter, the assurance practitioner shall inform the next higher level of authority within the employing organisation.

**R260.26** In exceptional circumstances, the assurance practitioner may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the assurance practitioner does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

## **Documentation**

260.27 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the assurance practitioner's superior, management and, where applicable, those charged with governance and other parties.
- How the assurance practitioner's superior has responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.

## SECTION 270

### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

#### Introduction

- 270.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 270.2 Pressure exerted on, or by, an assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

**R270.3** An assurance practitioner shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
  - (b) Place pressure on others that the assurance practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 270.3 A1 An assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:
- Within the employing organisation, for example, from a colleague or superior.
  - An external individual or organisation such as a vendor, customer or lender.
  - Internal or external targets and expectations.
- 270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
    - Pressure from a family member bidding to act as a vendor to the assurance practitioner's employing organisation to select the family member over another prospective vendor.
- See also Section 210, *Conflicts of Interest*.
- Pressure to influence preparation or presentation of information:
    - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
    - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
    - Pressure from colleagues to misstate income, expenditure or rates of return

to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from superiors to inappropriately reduce the extent of work performed.
  - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
  - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to inducements:
  - Pressure from others, either internal or external to the employing organisation, to offer inducements to influence inappropriately the judgement or decision making process of an individual or organisation.
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - Pressure to structure a transaction to evade tax.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organisation including the extent to which they reflect or emphasise the importance of ethical behaviour and the expectation that employees will act ethically. For example, a corporate culture

that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.

- Policies and procedures, if any, that the employing organisation has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the assurance practitioner's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organisation, including when appropriate, explaining any consequential risks to the organisation, for example with:
  - Higher levels of management.
  - Internal or external auditors.
  - Those charged with governance.
- Disclosing the matter in line with the employing organisation's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
  - A colleague, superior, human resources personnel, or another assurance practitioner;
  - Relevant professional or regulatory bodies or industry associations; or
  - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties so that the assurance practitioner is no longer involved with the individual or entity exerting the pressure.

## **Documentation**

270.4 A1 The assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

## C: CONSEQUENTIAL AMENDMENTS

*This section sets out consequential amendments to Professional and Ethical Standard 1 as a result of approval of the Amendments to Professional and Ethical Standard 1: Part 2, Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm*  
Amended paragraphs are shown with new text underlined and deleted text struck through.

### GUIDE TO THE CODE

#### How the Code is Structured

4. The Code contains the following material:
  - Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework.
  - ~~Part 2 – deleted by the NZAuASB~~ Part 2 – Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm, is applicable to individuals who are assurance practitioners when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.
  - Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, which sets out additional material that applies to assurance practitioners when providing assurance services.
  - *International Independence Standards (New Zealand)*, which sets out additional material that applies to assurance practitioners when providing assurance services, as follows:
    - Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements.
    - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.
  - *Glossary*, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code.

...

## NEW ZEALAND PREFACE

Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, (“the Code”), issued by the NZAuASB is based on ~~Parts 1, 3, 4A and 4B~~ of the International Code of Ethics for Professional Accountants (including International Independence Standards (“the International Code”). The International Code is issued by the International Ethics Standards Board for Accountants. It is published by the International Federation of Accountants (IFAC) and used with permission of IFAC, as it applies to assurance practitioners in New Zealand.

New Zealand additions and deletions are prefixed with NZ in the Code.

The Code is based on a number of fundamental principles that express the basic tenets of professional and ethical behaviour and conduct. Assurance practitioners must abide by these fundamental principles when performing assurance engagements.

The International Independence Standards (New Zealand) set out requirements that apply to all entities and all assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements. Many of the examples provided of actions that might reduce the threat may not be available to small entities and small firms. For example, involving individuals within the firm who are not members of the assurance team in, for example, providing non-assurance services to an assurance client, may not reduce the threats to independence to an acceptable level given the likely closeness of relationships of staff within small firms.



# PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

## SECTION 120

### THE CONCEPTUAL FRAMEWORK

#### Introduction

#### Requirements and Application Material

##### General

**R120.3** The assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- (a) Part 2 – Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm;
- (b) Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework;* and
- (c) *International Independence Standards (New Zealand)*, as follows:
  - (i) Part 4A – *Independence for Audit and Review Engagements;* and
  - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements.*

**R120.4** ~~*[Amended by the NZAuASB. Refer to NZ R120.4.1]*~~ When dealing with an ethics issue the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

~~**NZ R120.4.1** ——— When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical standards that apply to these circumstances.~~

## PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

### SECTION 300

#### APPLYING THE CONCEPTUAL FRAMEWORK

##### Requirements and Application Material

###### General

**R300.4** An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

**R300.5** ~~[Deleted by the NZAuASB. Refer to NZ-R300.5]~~ When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

~~**NZ-R300.5** — When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing assurance services pursuant to the assurance practitioner’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with any other ethical provisions that apply to these circumstances.~~

**300.5 A1** Examples of ~~such~~ situations in which the provisions in Part 2 apply to an assurance practitioner include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the assurance practitioner might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the assurance practitioner’s client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

NZ300.5A1.1 The International Independence Standards (New Zealand) prohibit the firm or a network firm from providing accounting and bookkeeping services including

preparing financial statements on which the firm will express an opinion or a conclusion or financial information which forms the basis of such financial statements<sup>1</sup>, except in limited circumstances as described in paragraph R601.5. Accordingly, the situation described in the second bullet point of paragraph 300.5 A1 in respect of an assurance practitioner's assurance client would not be permitted.

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<sup>1</sup> See Section 601, paragraphs R601.5 and R601.6

## GLOSSARY

In the *International Code of Ethics for Professional Accountants (including International Independence Standards) (New Zealand)*, 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.

Non-compliance with laws and regulations (assurance practitioners performing professional activities pursuant to their relationship with the firm) *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:*

- (a) An assurance practitioner’s employing organisation;*
- (b) Those charged with governance of the employing organisation;*
- (c) Management of the employing organisation; or*
- (d) Other individuals working for or under the direction of the employing organisation*

*This term is described in paragraph 260.5 A1.*

Non-compliance with laws and regulations (assurance practitioners) *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:*

- (a) A client;*
- (b) Those charged with governance of a client;*
- (c) Management of a client; or*
- (d) Other individuals working for or under the direction of a client.*

*This term is described in paragraph 360.5 A1.*

Senior assurance practitioner *Senior assurance practitioners are directors, offices or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation’s human, financial, technological, physical and intangible resources.*

*This term is described in paragraph 260.11 A1*

Substantial harm *This term is described in paragraphs 260.5 A3 and 360.5 A3.*

## **D: EFFECTIVE DATE**

The amendments in this Standard are effective on 15 December 2020. Early adoption is permitted.