

AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: *Revisions to the Code to promote the role and mindset expected of assurance practitioners*

This Standard was issued on 22 October 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 4 March 2021.

The amendments in this Standard are effective on 31 December 2021. 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 *Revisions to the Code to promote the role and mindset expected of assurance practitioners* into Professional and Ethical Standard 1.

COPYRIGHT

© External Reporting Board (“XRB”) 2021

This XRB standard contains copyright material and reproduces, with permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Ethics Standards Board for Accountants (IESBA), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-99-100503-8

**REVISIONS TO PROFESSIONAL AND ETHICAL STANDARD 1: *REVISIONS TO THE
CODE TO PROMOTE THE ROLE AND MINDSET EXPECTED OF ASSURANCE
PRACTITIONERS***

CONTENTS

A: INTRODUCTION

**B: REVISIONS TO THE CODE TO PROMOTE THE ROLE AND
MINDSET EXPECTED OF ASSURANCE PRACTITIONERS**

C: CONSEQUENTIAL AMENDMENTS

D: EFFECTIVE DATE

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 *Revisions to the Code to promote the role and mindset expected of assurance practitioners* into Professional and Ethical Standard 1.

Section B of this document sets out *Revisions to the Code to promote the role and mindset expected of assurance practitioners*. Amended paragraphs are shown with new text underlined and deleted text struck through.

B: Revisions to the Code to promote the role and mindset expected of assurance practitioners

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

SECTION 100

COMPLYING WITH THE CODE

General Introduction

100.1 ~~A1~~ A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. ~~An assurance practitioner's responsibility is not exclusively to satisfy the needs of an individual client. Therefore, the Code contains requirements and application material to enable assurance practitioners to meet their responsibility to act in the public interest.~~

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behaviour expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the

conceptual framework to a range of facts and circumstances that professional accountants may encounter, whether in business or in public practice.

Requirements and Application Material

100.2-5 A1 The requirements in the Code, designated with the letter “R,” impose obligations.

100.2-5 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help an assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

R100.36 An assurance practitioner shall comply with the Code. ~~There might be circumstances where laws or regulations preclude an assurance practitioner from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the assurance practitioner shall comply with all other parts of the Code.~~

~~100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable assurance practitioners to meet their responsibility to act in the public interest.~~

~~100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.~~

~~100.6 A3 Compliance with the requirements of the Code does not mean that assurance practitioners will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which an assurance practitioner believes the complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the assurance practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body.~~

~~100.6 A4 In acting in the public interest, an assurance practitioner considers not only the preferences or requirements of an individual client or employing organisation, but also the interests of other stakeholders when performing professional activities.~~

~~R100.7 If there are circumstances where laws or regulations preclude an assurance practitioner from complying with certain parts of the Code, those laws and regulations prevail, and the assurance practitioner shall comply with all other parts of the Code.~~

100.3-7 A1 The principle of professional behaviour requires an assurance practitioner to comply with relevant laws and regulations.

~~100.3 A2 An assurance practitioner might encounter unusual circumstances in which the assurance practitioner believes that the result of applying a specific requirement of the~~

~~Code would be disproportionate or might not be in the public interest. In those circumstances, the assurance practitioner is encouraged to consult with a professional or regulatory body.~~

Breaches of the Code

R100.48 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards (New Zealand)*. An assurance practitioner who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the assurance practitioner's ability to comply with the fundamental principles. The assurance practitioner shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.48A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for assurance practitioners:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – ~~not to compromise exercise~~ professional or business judgements ~~without being compromised by: because of~~
 - (i) ~~bias~~ Bias;
 - (ii) ~~C~~onflict of interest; or
 - (+)(iii) ~~U~~ndue influence of ~~-, or undue reliance on, individuals, organisations, technology or other factors.~~ others.
- (~~b~~) (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance services, based on current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation; and
 - (ii) Act diligently and in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behaviour – to:
 - (i) ~~comply~~ Comply with relevant laws and regulations; ~~and~~
 - (ii) Behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships;
and
 - (iii) ~~avoid~~ Avoid any conduct that the assurance practitioner knows or should know might discredit the profession.

R110.2 An assurance practitioner shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner. The conceptual framework establishes the approach which an assurance practitioner is required to apply ~~to assist~~ in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 An assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental

principles. In such a situation, the assurance practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the assurance practitioner from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 An assurance practitioner shall comply with the principle of integrity, which requires an assurance practitioner to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity ~~implies involves~~ fair dealing ~~and~~, truthfulness ~~and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences.~~

111.1 A2 Acting appropriately would involve:

- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
- (b) Challenging others as and when circumstances warrant,
in a manner appropriate to the circumstances.

R111.2 An assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the assurance practitioner believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If an assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the assurance practitioner is not in breach of paragraph R111.2.

R111.3 When an assurance practitioner becomes aware of having been associated with information described in paragraph R111.2, the assurance practitioner shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

R112.1 An assurance practitioner shall comply with the principle of objectivity, which requires an assurance practitioner ~~not to compromise or exercise~~ professional or business judgement ~~because without being compromised by:~~ of

~~(a) bias~~ **Bias**;

~~(b) conflict~~ **Conflict** of interest; or

~~(a)(c) undue~~ **Undue** influence ~~of others~~ or undue reliance on, individuals, organisations, technology or other factors.

R112.2 An assurance practitioner shall not undertake a professional activity if a circumstance or relationship unduly influences the assurance practitioner's professional judgement regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 An assurance practitioner shall comply with the principle of professional competence and due care, which requires an assurance practitioner to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance service, based on standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation; and

(b) Act diligently and in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

113.1 A1 Serving clients with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional ~~and~~ business ~~and technology-related~~ developments. Continuing professional development enables an assurance practitioner to develop and maintain the capabilities to perform competently within the assurance environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, an assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the assurance practitioner's authority have appropriate training and supervision.

R113.3 Where appropriate, an assurance practitioner shall make clients, or other users of the assurance practitioner's assurance services, aware of the limitations inherent in the services.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 An assurance practitioner shall comply with the principle of confidentiality, which requires an assurance practitioner to respect the confidentiality of information acquired as a result of professional and business relationships. An assurance practitioner shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm;
- (c) Maintain confidentiality of information disclosed by a prospective client;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the assurance practitioner or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the assurance practitioner's control, and individuals from whom advice and assistance are obtained, respect the assurance practitioner's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the assurance practitioner's client to the assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where assurance practitioners are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorised by the client; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an enquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of an assurance practitioner in legal proceedings; or

- (iv) To comply with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

NZ114.1 A1.1 The circumstances in paragraph 114.1 A1 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing confidential information about a client without their consent is advised to first obtain legal advice.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client consents to the disclosure of information by the assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

R114.2 An assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the assurance practitioner and a client. When acquiring a new client, the assurance practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

R115.1 An assurance practitioner shall comply with the principle of professional behaviour, which requires an assurance practitioner to:

- (a) ~~comply with relevant laws and regulations and;~~
- (b) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and
- (c) ~~avoid~~ Avoid any conduct that the assurance practitioner knows or should know might discredit the profession.

An assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the accountancy profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

R115.2 When undertaking marketing or promotional activities, an assurance practitioner shall not bring the accountancy profession into disrepute. An assurance practitioner shall be honest and truthful and shall not make:

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the assurance practitioner; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If an assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the assurance practitioner is encouraged to consult with the relevant professional body.

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

- 120.1 The circumstances in which assurance practitioners operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist assurance practitioners in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter assurance practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for an assurance practitioner to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

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** 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.

R120.5 When applying the conceptual framework, the assurance practitioner shall:

(a) Have an inquiring mind;

~~(a)~~(b) Exercise professional judgement; and

~~(b) Remain alert for new information and to changes in facts and circumstances; and~~

(c) Use the reasonable and informed third party test described in paragraph 120.5 A4A6.

Having an Inquiring Mind

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

(a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and

(b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the assurance practitioner might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the assurance practitioner.
- There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all assurance practitioners to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all assurance practitioners regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the NZAuASB, Assurance practitioners are also required to exercise professional scepticism, which includes a critical assessment of evidence.

Exercise-Exercising of Professional Judgement

120.5 A1A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and

circumstances, ~~including taking into account~~ the nature and scope of the particular assurance activities, and the interests and relationships involved.

~~120.5 A5 In relation to undertaking assurance activities, the exercise of professional~~ **Professional** judgement is required when the assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the assurance practitioner might consider matter such as whether:

~~120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgement.~~

~~120.5 A3 In exercising professional judgement to obtain this understanding, the assurance practitioner might consider, among other matters, whether:~~

- ~~• There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the assurance practitioner.~~
- ~~• There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.~~
- The assurance practitioner's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- ~~• The information provides a reasonable basis on which to reach a conclusion.~~
- The assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.
- ~~• There might be other reasonable conclusions that could be reached from the available information.~~

Reasonable and Informed Third Party

120.5 ~~A4~~**A6** The reasonable and informed third party test is a consideration by the assurance practitioner 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 assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.

Identifying Threats

R120.6 The assurance practitioner shall identify threats to compliance with the fundamental principles.

- 120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, or the firm that can enhance the assurance practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.
- 120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements might differ and, consequently, different types of threats might be created.
- 120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:
- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner's judgement or behaviour;
 - (b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made; or an activity performed by the assurance practitioner, or by another individual within the assurance practitioner's firm, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;
 - (c) Advocacy threat – the threat that an assurance practitioner will promote a client's position to the point that the assurance practitioner's objectivity is compromised;
 - (d) Familiarity threat – the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and
 - (e) Intimidation threat – the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.
- 120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R120.7 When the assurance practitioner identifies a threat to compliance with the fundamental principles, the assurance practitioner shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

120.7 A1 An acceptable level is 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.

Factors Relevant in Evaluating the Level of Threats

- 120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable.
- 120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:
- Corporate governance requirements.
 - Educational, training and experience requirements for the profession.
 - Effective complaint systems which enable the assurance practitioner and the general public to draw attention to unethical behaviour.
 - An explicitly stated duty to report breaches of ethics requirements.
 - Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

- R120.9** If the assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the assurance practitioner shall re-evaluate and address that threat accordingly.
- 120.9 A1 Remaining alert throughout the professional activity assists the assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:
- (a) Impact the level of a threat; or
 - (b) Affect the assurance practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.
- 120.9 A2 If new information results in the identification of a new threat, the assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

- R120.10** If the assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the assurance practitioner shall address the threats by eliminating them or reducing them to an acceptable level. The assurance practitioner shall do so by:
- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
 - (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
 - (c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

R120.11 The assurance practitioner shall form an overall conclusion about whether the actions that the assurance practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the assurance practitioner shall:

- (a) Review any significant judgements made or conclusions reached; and
- ~~(b) (b)~~—Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.

- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to provide additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organisational Culture

120.13 A1 The effective application of the conceptual framework by an assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the assurance practitioner's organisation.

120.13 A2 The promotion of an ethical culture within an organisation is most effective when:

- Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating the ethical values of the organisation;
- Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistle-blowers; and
- The organisation adheres to ethical values in its dealings with third parties.

120.13 A3 Assurance practitioners are expected to encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority.

Considerations for Audits, Reviews—and, Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 [Proposed] ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Independence

120.~~12~~15 A1 Assurance practitioners are required by *International Independence Standards (New Zealand)* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental 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 audit, review or assurance team member’s integrity, objectivity or professional scepticism has been compromised.

120.~~12~~15 A2 *International Independence Standards (New Zealand)* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Assurance practitioners and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

Professional Scepticism

120.~~13~~16 A1 Under auditing, review and other assurance standards, including those issued by the New Zealand Auditing and Assurance Standards Board, assurance practitioners are required to exercise professional scepticism when planning and performing audits, reviews and other assurance engagements. Professional scepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.~~13~~16 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism, as shown in the following examples:

- Integrity requires the assurance practitioner to be straightforward and honest. For example, the assurance practitioner complies with the principle of integrity by:
 - Being straightforward and honest when raising concerns about a position taken by a client; ~~and~~
 - Pursuing enquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
 - Having the strength of character to act appropriately. This would involve:

(a) Standing one's ground when confronted by dilemmas and difficult situations.

(b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the assurance practitioner demonstrates the critical assessment of audit evidence that contributes to the exercise of professional scepticism.

- Objectivity requires the assurance practitioner ~~not to compromise exercise~~ professional or business judgement ~~because of~~without being compromised by:

(a) bias~~Bias~~;

(b) Conflict of interest; or

- (c) the ~~u~~Undue influence of, or undue reliance on, individuals, organisations, technology or other factors. ~~-others.~~

For example, the assurance practitioner complies with the principle of objectivity by:

- (a) Recognising circumstances or relationships such as familiarity with the client, that might compromise the assurance practitioner's professional or business judgement; and
- (b) Considering the impact of such circumstances and relationships on the assurance practitioner's judgement when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

- Professional competence and due care requires the assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the assurance practitioner complies with the principle of professional competence and due care by:

- (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
- (b) Designing and performing appropriate audit procedures; and
- (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

.....

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: Revisions to the Code to promote the role and mindset expected of assurance practitioners Amended paragraphs are shown with new text underlined and deleted text struck through.

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.

Professional activity An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, tax, management consulting, and financial management.

Professional Judgement Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

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).

D: EFFECTIVE DATE

The amendments in this Standard are effective on 31 December 2021. Early adoption is permitted.