



## PROFESSIONAL AND ETHICAL STANDARD 1

### **International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)**

This Standard was issued on 20 December 2018 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 17 January 2019.

An assurance practitioner that is required to apply this Standard is required to apply it as follows:

- Parts 1 and 3 will be effective as of 15 June 2019.
- Part 2 is effective on 15 December 2020.
- Part 4A relating to independence for audit and review engagements will be effective for periods beginning on or after 15 June 2019.
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after 15 June 2019; otherwise it will be effective as of 15 June 2019.

Early adoption is permitted.

Paragraph R540.19 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023.

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

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

This Standard, when applied, supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*.

This compilation was prepared in September 2021 and incorporates amendments up to and including October 2020.

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## PROFESSIONAL AND ETHICAL STANDARD 1

**INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS  
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**


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## History of Amendments

### Table of pronouncements – Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

This table lists the pronouncements establishing and amending PES 1.

<b>Pronouncements</b>	<b>Date approved</b>	<b>Effective date</b>
Professional and Ethical Standard 1, <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>	December 2018	Professional and Ethical Standard 1 is effective on 15 June 2019 or for periods beginning on or after 15 June 2019
<i>Amendments to Professional and Ethical Standard 1: Part 2, Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm</i>	October 2020	Amendments in this Standard are effective on 15 December 2020. Early adoption is permitted.
<i>Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements</i>	February 2020	Amendments in this Standard are effective for periods beginning on or after 15 June 2021, or on 15 June 2021. Early adoption is permitted.
<i>Annual Improvements 2020</i>	April 2021	Effective on 15 June 2021
<i>Revisions to the Code to promote the Role and Mindset expected of Assurance Practitioners</i>	October 2020	Effective on 31 December 2021. Early adoption is permitted.

<b>Table of Amended Paragraphs in PES 1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Part 2 <b>R120.4, R300.5,</b> NZ300.5 A1.1 <b>NZ R120.4.1. NZ</b> <b>R300.5</b> 120.3 A1,300.5 A1	Added  Deleted  Amended	<i>Amendments to Professional and Ethical Standard 1: Part 2, Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm</i> [Oct 2020]
Part 4B	Amended	<i>Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements</i> [Feb 2020]

Definition Assurance Practitioner	Amended	<i>Annual Improvements 2020</i> [April 2021]
Part 1, various paragraphs	Amended	<i>Revisions to the Code to Promote the Role and Mindset Expected of Assurance Practitioners</i> [Oct 2020]

## GUIDE TO THE CODE

(This Guide is a non-authoritative aid to using the Code.)

### Purpose of the Code

1. Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (“the Code”) sets out fundamental principles of ethics for assurance practitioners, reflecting the profession’s recognition of its public interest responsibility. These principles establish the standard of behaviour expected of an assurance practitioner. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
2. The Code provides a conceptual framework that assurance practitioners are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help assurance practitioners apply the conceptual framework to those topics.
3. In the case of audits, reviews and other assurance engagements, the Code sets out *International Independence Standards (New Zealand)*, established by the application of the conceptual framework to threats to independence in relation to these engagements.

### 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 – *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.
5. The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:
- Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
  - Requirements – establish general and specific obligations with respect to the subject matter addressed.
  - Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

## **How to Use the Code**

### *The Fundamental Principles, Independence and Conceptual Framework*

6. The Code requires assurance practitioners to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires exercising professional judgement, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.
7. The conceptual framework recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, or the firm, might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the assurance practitioner’s evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires the assurance practitioner to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the assurance practitioner takes that effectively reduce threats to an acceptable level.
8. In addition, the Code requires assurance practitioners to be independent when performing audit, review and other assurance engagements. The conceptual framework applies in the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.
9. Complying with the Code requires knowing, understanding and applying:
- All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 300, 400 and 900, as applicable.
  - All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled “General” and “All Audit or Review Clients” together with additional specific provisions, including those set out

under the subheadings titled “Audit or Review Clients that are not Public Interest Entities” or “Audit or Review Clients that are Public Interest Entities.”

- All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

#### *Requirements and Application Material*

10. Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

#### *Requirements*

11. Requirements are designated with the letter “R” and, in most cases, include the word “shall.” The word “shall” in the Code imposes an obligation on an assurance practitioner or firm to comply with the specific provision in which “shall” has been used.
12. In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter “R” but uses “may” or conditional wording.
13. When the word “may” is used in the Code, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.
14. When the word “might” is used in the Code, it denotes the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

#### *Application Material*

15. In addition to requirements, the Code contains application material that provides context 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. Application material is designated with the letter “A.”
16. Where application material includes lists of examples, these lists are not intended to be exhaustive.

#### *Appendix to Guide to the Code*

17. The Appendix to this Guide provides an overview of the Code.



**OVERVIEW OF THE CODE**

**PART 1**  
**COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK**  
(ALL PROFESSIONAL ACCOUNTANTS - SECTIONS 100 TO 199)

**PART 2**  
**ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL**  
**ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE**  
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**PART 3**  
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**PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW**  
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(SECTIONS 900 TO 999)

**GLOSSARY**

PROFESSIONAL AND ETHICAL STANDARD 1

**INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS  
(including INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)**

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## **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 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.

## NEW ZEALAND SCOPE AND APPLICATION

- NZ1.1 Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (“the Code”) is effective from 15 June 2019 and supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*, issued by the XRB in January 2013. Early adoption of the Code is permitted.
- NZ1.2 The Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. The Code makes reference to the accountancy profession to establish a benchmark and is not intended to exclude assurance practitioners that are not part of the accountancy profession. Some professions may have requirements and guidance that differ from those contained in the Code. Assurance practitioners from other professions, including any person or organisation appointed or engaged to perform assurance engagements, need to be aware of these differences and comply with the more stringent requirements and guidance.
- NZ1.3 The Code is not intended to detract from responsibilities which may be imposed by law or regulation.
- NZ1.4 In applying the requirements outlined in the Code, assurance practitioners shall be guided not merely by the words, but also by the spirit of the Code.

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

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

## **SECTION 100**

### **COMPLYING WITH THE CODE**

#### **Introduction**

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.
- 100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organisations 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 judgement.
- 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 organisations 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**

- 100.5 A1 The requirements in the Code, designated with the letter “R,” impose obligations.
- 100.5 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.

**R100.6** An assurance practitioner shall comply with 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 that 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.

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

### **Breaches of the Code**

**R100.8** 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.

100.8 A1 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 – to exercise professional or business judgements without being compromised by:
  - (i) Bias;
  - (ii) Conflict of interest; or
  - (iii) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.
- (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 with relevant laws and regulations;
  - (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 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 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 involves fair dealing, 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 to exercise professional or business judgement without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence, 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, 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;
- (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 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 enquiring mind;
  - (b) Exercise professional judgement; and
  - (c) Use the reasonable and informed third party test described in paragraph 120.5 A6.

*Having an Enquiring Mind*

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

*Exercising Professional Judgement*

- 120.5 A4 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 assurance activities, and the interests and relationships involved.

- 120.5 A5 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 matters such as whether:
- 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 assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.

#### *Reasonable and Informed Third Party*

- 120.5 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) 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 favour 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 whistleblowers; 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, Other Assurance and Related Services Engagements**

### *Firm Culture*

120.14 A1 Professional and Ethical Standard 3 (Revised)<sup>1</sup> 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*

120.15 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:

- 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.
- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to

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<sup>1</sup> Professional and Ethical Standard 3 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

conclude that a firm's or an audit, review or assurance team member's integrity, objectivity or professional scepticism has been compromised.

120.15 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*

120.16 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.

120.16 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;
  - 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 to exercise professional or business judgement without being compromised by:
  - (a) Bias,
  - (b) Conflict of interest; or



- (c) Undue influence of, or reliance on, individuals, organisations, technology or other factors.

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.

**PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL  
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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.

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

### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK**

##### **Introduction**

- 300.1 This Part of the Code sets out requirements and application material for assurance practitioners 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.
- 300.2 The requirements and application material that apply to assurance practitioners are set out in:
- Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, Sections 300 to 399, which applies to all assurance practitioners when providing assurance services.
  - *International Independence Standards (New Zealand)* as follows:
    - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to assurance practitioners when performing audit and review engagements.
    - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, Sections 900 to 999, which applies to assurance practitioners when performing assurance engagements other than audit or review engagements.
- 300.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.

##### **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** 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.

300.5 A1 Examples of 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>2</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.

### Identifying Threats

300.6 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 of threats that might create threats for an assurance practitioner when undertaking an assurance service:

(a) Self-interest Threats

- An assurance practitioner having a direct financial interest in a client.
- An assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the assurance service 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 for that price.
- An assurance practitioner having a close business relationship with a client.
- An assurance practitioner having access to confidential information that might be used for personal gain.

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<sup>2</sup> See Section 601, paragraphs R601.5 and R601.6

- An assurance practitioner discovering a significant error when evaluating the results of a previous assurance service performed by a member of the assurance practitioner's firm.
- (b) Self-review Threats
- An assurance practitioner issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
  - An assurance practitioner having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- (c) Advocacy Threats
- An assurance practitioner promoting the interests of, or shares in, a client.
  - An assurance practitioner acting as an advocate on behalf of a client in litigation or disputes with third parties.
  - An assurance practitioner lobbying in favour of legislation on behalf of a client.
- (d) Familiarity Threats
- An assurance practitioner having a close or immediate family member who is a director or officer of the client.
  - A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
  - An audit team member having a long association with the audit client.
- (e) Intimidation Threats
- An assurance practitioner being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
  - An assurance practitioner feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
  - An assurance practitioner being informed that a planned promotion will not occur unless the assurance practitioner agrees with an inappropriate accounting treatment.
  - An assurance practitioner having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

### **Evaluating Threats**

300.7 A1 The conditions, policies and procedures described in paragraph 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. Such conditions, policies and procedures might relate to:

- (a) The client and its operating environment; and

(b) The firm and its operating environment.

300.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the assurance service.

*The Client and its Operating Environment*

300.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is:

- (a) An audit client and whether the audit client is a public interest entity;
- (b) An assurance client that is not an audit client; or
- (c) A non-assurance client.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, an assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

*The Firm and its Operating Environment*

300.7 A5 An assurance practitioner's evaluation of the level of a threat might be impacted by the systems and procedures within the assurance practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.



- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

*Consideration of New Information or Changes in Facts and Circumstances*

300.7 A6 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of an assurance service is expanded.
- When the client becomes a FMC reporting entity considered to have a higher level of public accountability or acquires another business unit.
- When the firm merges with another firm.
- When the assurance practitioner is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the assurance practitioner's personal or immediate family relationships.

**Addressing Threats**

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

*Examples of Safeguards*

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.

- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards (New Zealand)* describe certain threats that might arise during the course of performing assurance services and include examples of actions that might address threats.

#### Appropriate Reviewer

300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner.

### Communicating with Those Charged with Governance

**R300.9** When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the entity'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.

300.9 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.

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

**R300.10** 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.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to 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 310

### CONFLICTS OF INTEREST

#### Introduction

- 310.1 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.
- 310.2 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 provides a professional service related to a particular matter for two or more assurance clients whose interests with respect to that matter are in conflict; or
  - (b) The interests of an assurance practitioner with respect to a particular matter and the interests of the assurance client for whom the assurance practitioner provides a professional service related to that matter are in conflict.
- 310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When an assurance practitioner provides an audit, review or other assurance service, independence is also required in accordance with *International Independence Standards (New Zealand)*.

#### Requirements and Application Material

##### General

- R310.4** An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.
- 310.4 A1 Examples of circumstances that might create a conflict of interest include:
- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
  - Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
  - Providing services to a seller and a buyer in relation to the same transaction.
  - Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
  - Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
  - In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
  - Advising a client to invest in a business in which, for example, the spouse of the

assurance practitioner has a financial interest.

- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

## **Conflict Identification**

### *General*

**R310.5** Before accepting a new client relationship, engagement, or business relationship, 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 service and its implication for relevant parties.

310.5 A1 An effective conflict identification process assists an assurance practitioner when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the assurance practitioner being able to address threats created by the conflict of interest.

310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the assurance services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

310.5 A3 More information on client acceptance is set out in Section 320, *Professional Appointments*.

### *Changes in Circumstances*

**R310.6** An assurance practitioner shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

310.6 A1 The nature of services, interests and relationships might change during the engagement.

This is particularly true when an assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the assurance practitioner initially might not be involved in a dispute.

### *Network Firms*

**R310.7** If the firm is a member of a network, an assurance practitioner shall consider conflicts of interest that the assurance practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the assurance services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

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

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

310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorised disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgements and conclusions are appropriate.

## Disclosure and Consent

### General

**R310.9** An assurance practitioner shall exercise professional judgement to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

**NZ R310.9.1** Where an assurance practitioner has a conflict of interest but can apply safeguards to eliminate the threat or reduce it to an acceptable level, the assurance practitioner shall disclose, in writing, the nature of the conflict of interest and related safeguards, if any, to all clients or potential clients affected by the conflict.

**NZ R310.9.2** When safeguards are required to reduce the threat to an acceptable level, the assurance practitioner shall obtain, in writing, the client's consent to the assurance practitioner performing the assurance services.

310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the assurance practitioner does not provide services exclusively to any one client (for example, in a particular service and market sector). This enables the client to provide general consent accordingly. For example, an assurance practitioner might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the assurance practitioner has sufficient evidence to conclude that clients 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.

310.9 A3 *[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2]*

310.9 A4 *[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2]*

*When Explicit Consent is Refused*

**R310.10** If an assurance practitioner has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the assurance practitioner shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

**Confidentiality**

*General*

**R310.11** An assurance practitioner shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

310.11 A1 Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

*When Disclosure to Obtain Consent would Breach Confidentiality*

**R310.12** *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

**NZ R310.12.1** In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall end or decline the relevant assurance engagement.

310.12 A1 *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

**Documentation**

**R310.13** *[Deleted by the NZAuASB.]*

## **SECTION 320**

### **PROFESSIONAL APPOINTMENTS**

#### **Introduction**

- 320.1 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.
- 320.2 Acceptance of a new client relationship or changes in an existing engagement might create a 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**

##### **Client and Engagement Acceptance**

###### *General*

- 320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
  - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
    - The nature of the client's business;
    - The complexity of its operations;
    - The requirements of the engagement; and
    - The purpose, nature and scope of the work to be performed.
  - Knowledge of relevant industries or subject matter.
  - Experience with relevant regulatory or reporting requirements.
  - The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.



- 320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:
- Assigning sufficient engagement personnel with the necessary competencies.
  - Agreeing on a realistic time frame for the performance of the engagement.
  - Using experts where necessary.

## **Changes in a Professional Appointment**

### *General*

- R320.4** An assurance practitioner shall determine whether there are any reasons for not accepting an engagement when the assurance practitioner:
- (a) Is asked by a potential client to replace another assurance practitioner;
  - (b) Considers tendering for an engagement held by another assurance practitioner; or
  - (c) Considers undertaking work that is complementary or additional to that of another assurance practitioner.
- 320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if an assurance practitioner accepts the engagement before knowing all the relevant facts.
- 320.4 A2 If an assurance practitioner is asked to undertake work that is complementary or additional to the work of an existing or predecessor assurance practitioner, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.
- 320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor assurance practitioner will be requested. This contact gives the proposed assurance practitioner the opportunity to enquire whether there are any reasons why the engagement should not be accepted.
- 320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Asking the existing or predecessor assurance practitioner to provide any known information of which, in the existing or predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware before deciding whether to accept the engagement. For example, enquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor assurance practitioner that might influence the decision to accept the appointment.
  - Obtaining information from other sources such as through enquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

*Communicating with the Existing or Predecessor Assurance Practitioner*

320.5 A1 A proposed assurance practitioner will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor assurance practitioner.

**R320.6** If unable to communicate with the existing or predecessor assurance practitioner, the proposed assurance practitioner shall take other reasonable steps to obtain information about any possible threats.

*Communicating with the Proposed Assurance Practitioner*

**R320.7** When an existing or predecessor assurance practitioner is asked to respond to a communication from a proposed assurance practitioner, the existing or predecessor assurance practitioner shall:

- (a) Comply with relevant laws and regulations governing the request; and
- (a) Provide any information honestly and unambiguously.

320.7 A1 An existing or predecessor assurance practitioner is bound by confidentiality. Whether the existing or predecessor assurance practitioner is permitted or required to discuss the affairs of a client with a proposed assurance practitioner will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor assurance practitioner has permission from the client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

320.7 A2 Circumstances where an assurance practitioner is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A1 of the Code.

*Changes in Audit or Review Appointments*

**R320.8** In the case of an audit or review of financial statements, an assurance practitioner shall request the existing or predecessor assurance practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

- (a) If the client consents to the existing or predecessor assurance practitioner disclosing any such facts or other information, the existing or predecessor assurance practitioner shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the existing or predecessor assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, the existing or predecessor assurance practitioner shall disclose this

fact to the proposed assurance practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

### **Client and Engagement Continuance**

**R320.9** For a recurring client engagement, an assurance practitioner shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the assurance practitioner to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management or balance sheet valuations.

### **Using the Work of an Expert**

**R320.10** When an assurance practitioner intends to use the work of an expert, the assurance practitioner shall determine whether the use is warranted.

320.10 A1 Factors to consider when an assurance practitioner intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

## **SECTION 321**

### **SECOND OPINIONS**

#### **Introduction**

321.1 *[Deleted.by the NZAuASB]*

321.2 *[Deleted.by the NZAuASB]*

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

##### **General**

321.3 A1 *[Deleted.by the NZAuASB]*

321.3 A2 *[Deleted.by the NZAuASB]*

321.3 A3 *[Deleted.by the NZAuASB]*

*When Permission to Communicate is Not Provided*

**R321.4** *[Deleted.by the NZAuASB]*

## **SECTION 330**

### **FEES AND OTHER TYPES OF REMUNERATION**

#### **Introduction**

- 330.1 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.
- 330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

#### **Application Material**

##### **Level of Fees**

- 330.3 A1 The level of fees quoted might impact an assurance practitioner's ability to perform professional services in accordance with professional standards.
- 330.3 A2 An assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than another assurance practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement 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.
- 330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
  - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
  - Having an appropriate reviewer review the work performed.

##### **Contingent Fees**

- 330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.
- 330.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.

- The range of possible fee amounts.
- The basis for determining the fee.
- Disclosure to intended users of the work performed by the assurance practitioner and the basis of remuneration.
- Quality control policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

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

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

330.4 A4 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in *International Independence Standards (New Zealand)*.

### **Referral Fees or Commissions**

**NZ R330.5** An assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with an assurance engagement.

330.5 A1 *[Deleted by the NZAuASB. Refer to NZ R330.5 and NZ 330.5 A1.1]*

NZ 330.5 A1.1 The receipt or payment of referral fees, commissions or other similar benefits in connection with an assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level.

330.5 A2 *[Deleted by the NZAuASB. Refer to NZ R330.5 and NZ 330.5 A1.1]*

### **Purchase or Sale of a Firm**

330.6 A1 An assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

## **SECTION 340**

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

#### **Introduction**

- 340.1 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.
- 340.2 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.
- 340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services 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**

- 340.4 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 assurance practitioners and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- 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**

- R340.5** 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**

340.6 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*

**R340.7** 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.

**R340.8** 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.

340.9 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.

340.9 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.

340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgment. 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 service, 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 firm, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client 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 client.
- 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

340.10 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 R340.7 and R340.8 are met.

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

- Informing senior management of the firm or those charged with governance of the client regarding the offer.
- Amending or terminating the business relationship with the client.

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

340.11 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.

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

340.11 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 hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
  - An assurance practitioner regularly takes an existing or prospective client to sporting events.
- Intimidation threats
  - An assurance practitioner accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

340.11 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 340.9 A3 for determining intent.

340.11 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 the provision of any professional services to the client to another individual who the assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

340.11 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 of the firm or of the client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the assurance practitioner with respect to the client from which the assurance practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm 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**

**R340.12** 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 an existing or prospective client of the assurance practitioner.
- (b) To an immediate or close family member of the assurance practitioner by an existing or prospective client of the assurance practitioner.

**R340.13** 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 an existing or prospective client of the assurance practitioner, 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.

340.13 A1 The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the existing or prospective client. 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 existing or prospective client; and
- (c) The assurance practitioner and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the assurance practitioner by a client for whom the assurance practitioner is providing a business valuation for a prospective sale might indicate such intent.

340.13 A2 The application material in paragraph 340.10 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 existing or prospective client even if the immediate or close family member has followed the advice given pursuant to paragraph R340.13.

#### *Application of the Conceptual Framework*

340.14 A1 Where the assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, 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 R340.13; 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 existing or prospective client exists.

340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 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 340.13 A1.

#### **Other Considerations**

340.15 A1 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 a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.

340.15 A2 If a firm, network firm or an audit or review team member is being offered gifts or hospitality from an audit or review client, the requirement and application material set out in Section 420 apply.

340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

## **SECTION 350**

### **CUSTODY OF CLIENT ASSETS**

#### **Introduction**

- 350.1 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.
- 350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

##### **Before Taking Custody**

- R350.3** An assurance practitioner shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.
- R350.4** As part of client and engagement acceptance procedures related to assuming custody of client money or assets, an assurance practitioner shall:
- (a) Make enquiries about the source of the assets; and
  - (b) Consider related legal and regulatory obligations.
- 350.4 A1 Enquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 360 would apply.

##### **After Taking Custody**

- R350.5** An assurance practitioner entrusted with money or other assets belonging to others shall:
- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
  - (b) Keep the assets separately from personal or firm assets;
  - (c) Use the assets only for the purpose for which they are intended; and
  - (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

## **SECTION 360**

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

#### **Introduction**

- 360.1 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.
- 360.2 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.
- 360.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. 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 client'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 client's financial statements, but compliance with which might be fundamental to the operating aspects of the client'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**

- 360.4 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 client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of 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**

- 360.5 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) 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.

360.5 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.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, 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, an act 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.

**R360.6** In some cases, there are legal or regulatory provisions governing how assurance practitioners should 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 client.

360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

360.7 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 client, its stakeholders and the general public.

360.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an assurance practitioner has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.

The assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **Responsibilities of Management and Those Charged with Governance**

360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client'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 client;
- (b) An individual charged with governance of the entity;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the client.

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

**R360.9** 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. In taking timely steps, the assurance practitioner shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

### **Audits and Reviews of Financial Statements**

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

**R360.10** [Amended by the NZAuASB]

**NZ R360.10.1** If an assurance practitioner engaged to perform an audit or review of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the assurance practitioner shall 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.

360.10 A1 The assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.

360.10 A2 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 knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.10 A3 Depending on the nature and significance of the matter, the assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

**R360.11** If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

360.11 A1 The purpose of the discussion is to clarify the assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

360.11 A4 The assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

**R360.12** If the assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the assurance practitioner shall discuss the matter with those charged with governance.

#### *Addressing the Matter*

**R360.13** In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or



- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

**R360.14** The assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

**R360.15** *[Amended by the NZAuASB]*

**NZ R360.15.1** The assurance practitioner shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under auditing and review engagement standards, including those relating to:
- Identifying and responding to non-compliance, including fraud.
  - Communicating with those charged with governance.
  - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report or review report.

360.15 A1 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.

Communication with Respect to Groups

**R360.16** *[Amended by the NZAuASB]*

**NZ R360.16.1** Where an assurance practitioner becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the assurance practitioner shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The assurance practitioner is, for purposes of an audit or review of the group financial statements, requested by the group engagement team to perform work on financial information related to the component; or
- (b) The assurance practitioner is engaged to perform an audit or review of the component's financial statements for purposes other than the group audit or review, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 *[Amended by the NZAuASB]*

NZ 360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit or review,

whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph NZ R360.16.1 applies regardless of whether the group engagement partner's firm or network is the same as or different from the assurance practitioner's firm or network.

**R360.17** *[Amended by the NZAuASB]*

**NZ R360.17.1** Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit or review of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit or review of the group financial statements; or
- (b) Whose financial statements are subject to audit or review for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

**R360.18** *[Amended by the NZAuASB]*

**NZ R360.18.1** If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph NZ R360.17.1(a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate enquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph NZ R360.17.1(b) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor.

360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing work at the components.

*Determining Whether Further Action Is Needed*

**R360.19** The assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.

- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

**R360.20** In light of the response of management and, where applicable, those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.

360.20 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 client.
- Whether the assurance practitioner continues to have confidence in the integrity of management and, where applicable, 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 entity, investors, creditors, employees or the general public.

360.20 A2 Examples of circumstances that might cause the assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

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

**R360.21** The 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.

360.21 A1 Further action that the assurance practitioner might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.

- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the 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, withdrawal might be the only available course of action.

**R360.22** Where the assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the assurance practitioner shall, on request by the proposed assurance practitioner pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed assurance practitioner. The predecessor assurance practitioner shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the predecessor assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, unless prohibited by law or regulation.

360.22 A1 The facts and other information to be provided are those that, in the predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware of before deciding whether to accept the audit or review appointment. Section 320 addresses communications from proposed assurance practitioners.

**R360.23** If the proposed assurance practitioner is unable to communicate with the predecessor assurance practitioner, the proposed assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

360.23 A1 Other means to obtain information about the circumstances of the change of appointment include enquiries of third parties or background investigations of management or those charged with governance.

360.24 A1 As assessment of the matter might involve complex analysis and judgements, the 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

360.25 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.

360.25 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 assurance

practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

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

360.25 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 on 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 assurance practitioner or other individuals.

**R360.26** If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance 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. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.

#### *Imminent Breach*

**R360.27** In exceptional circumstances, the 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 entity, 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*

**R360.28** In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner shall document:

- How management and, where applicable, 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, having regard to the reasonable and informed third party test.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 *[Amended by the NZAuASB]*

NZ 360.28 A1.1 This documentation is in addition to complying with the documentation requirements under applicable auditing or review engagement standards. International Standards on Auditing (New Zealand) (ISAs (NZ)), for example, require an assurance practitioner performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

#### **Assurance Services Other than Audits and Reviews of Financial Statements**

##### *Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance*

**R360.29** *[Amended by the NZAuASB]*

**NZ R360.29.1** If an assurance practitioner engaged to provide an assurance service other than an audit or review of financial statements 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 be about to occur.

360.29 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 beyond that which is required for the

professional service for which the assurance practitioner was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

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

**R360.30** If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall discuss the matter with the appropriate level of management. If the assurance practitioner has access to those charged with governance, the assurance practitioner shall also discuss the matter with them where appropriate.

360.30 A1 The purpose of the discussion is to clarify the assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

*Communicating the Matter to the Entity's External Auditor or Assurance Practitioner*

**R360.31** [Amended by the NZAuASB]

**NZ R360.31.1** If the assurance practitioner is performing an assurance service other than an audit or review for:

- (a) An audit or review client of the firm; or
- (b) A component of an audit or review client of the firm,

the assurance practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit or review engagement partner.

**R360.32** [Amended by the NZAuASB]

**NZ R360.32.1** If the assurance practitioner is performing an assurance service other than an audit or review for:

- (a) An audit or review client of a network firm; or

(b) A component of an audit or review\_client of a network firm, the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit or review\_engagement partner.

**R360.33** *[Amended by the NZAuASB]*

**NZ R360.33.1** If the assurance practitioner is performing an assurance service other than an audit or review for a client that is not:

(a) An audit or review client of the firm or a network firm; or

(b) A component of an audit or review client of the firm or a network firm,

the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external assurance practitioner, if any.

Relevant Factors to Consider

360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.
- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

Purpose of Communication

360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.

*Considering Whether Further Action Is Needed*

**R360.36** The assurance practitioner shall also consider whether further action is needed in the public interest.



360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

360.36 A2 Further action by the assurance practitioner might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

**R360.37** If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance 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. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.

#### *Imminent Breach*

**R360.38** In exceptional circumstances, the 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 entity, 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 of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

### *Seeking Advice*

360.39 A1 The assurance practitioner might consider:

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

### *Documentation*

360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, 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 R360.36.

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# INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) (PARTS 4A and 4B)

## PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

### SECTION 400

#### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

##### Introduction

##### General

- 400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.
- 400.2 *[Amended by the NZAuASB]*
- NZ 400.2 This Part applies to both audit and review engagements.
- NZ 400.2.1 This Part also applies to engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.
- 400.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.
- 400.4 Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel), maintain independence where required by relevant ethics requirements. International Standards on Auditing (New Zealand), International Standards on Review Engagements (New Zealand) and New Zealand Standards on Review Engagements establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with Professional and Ethical Standard 3 (Amended). In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.
- 400.5 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional

judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit or review team member’s, integrity, objectivity or professional scepticism has been compromised.

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

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

400.7 This Part describes:

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

### **Public Interest Entities**

400.8 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

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

400.9 An audit report or review report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

### **Assurance Engagements other than Audit and Review Engagements**

400.10 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

## **Requirements and Application Material**

### **General**

**R400.11** A firm performing an audit or review engagement shall be independent.

**R400.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit or review engagement.

**NZ R400.12.1** Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

**[Paragraphs 400.13 to 400.19 are intentionally left blank]**

### **Related Entities**

**R400.20** As defined, an audit or review client that is a FMC reporting entity considered to have a higher level of public accountability includes all of its related entities. For all other entities, references to an audit or review client in this Part include related entities over which the client has direct or indirect control. When the audit or review team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit or review team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 400.21 to 400.29 are intentionally left blank]**

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

**R400.30** Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit report or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.

**R400.31** If an entity becomes an audit or review client during or after the period covered by the financial statements on which the firm will express an opinion or a conclusion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit or review client during or after the period covered by the financial statements but before accepting the audit or review engagement; or

- (b) Previous services provided to the audit or review client by the firm or a network firm.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit or review client during, or after the period covered by the financial statements, but before the audit or review team begins to perform the audit or review, and the service would not be permitted during the engagement period.

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

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer review the audit or review and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**[Paragraphs 400.32 to 400.39 are intentionally left blank]**

### **Communication with those Charged with Governance**

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgements in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

**[Paragraphs 400.41 to 400.49 are intentionally left blank]**

### **Network Firms**

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide assurance services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

**R400.51** A network firm shall be independent of the audit or review clients of the other firms within the network as required by this Part.



400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

**R400.52** When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgement to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgement consistently throughout such a larger structure.

**R400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality control policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality control policies and procedures are those designed, implemented and monitored across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it cooperates with another entity solely to respond jointly to a request for a proposal for the provision of an assurance service. (Ref: Para. R400.53(d)).

400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an audit or review report. (Ref: Para. R400.53(e)).

400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).

400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Partners and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit or review methodology or audit or review manuals.
- Training courses and facilities. (Ref: Para. R400.53(f)).

400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common audit or review methodology or audit or review manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

**R400.54** If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common

name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

**[Paragraphs 400.55 to 400.59 are intentionally left blank]**

### **General Documentation of Independence for Audit and Review Engagements**

**R400.60** A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

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

**[Paragraphs 400.61 to 400.69 are intentionally left blank]**

### **Mergers and Acquisitions**

#### *When a Client Merger Creates a Threat*

400.70 A1 An entity might become a related entity of an audit or review client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit or review engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

**R400.71** In the circumstances set out in paragraph 400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit or review engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

**R400.72** As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

**R400.73** If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the assurance practitioner, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or review or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having an assurance practitioner review the audit, review or non-assurance work as appropriate.
- Having an assurance practitioner, who is not a member of the firm expressing the opinion or conclusion on the financial statements, perform a review that is equivalent to an engagement quality control review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R400.74** The firm might have completed a significant amount of work on the audit or review prior to the effective date of the merger or acquisition and might be able to complete the remaining audit or review procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit or review while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;

- (b) Complies with the requirements of paragraph R400.73(a) to (c); and
- (c) Ceases to be the assurance practitioner no later than the date that the audit report or review report is issued.

*If Objectivity Remains Compromised*

**R400.75** Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the assurance practitioner.

*Documentation*

**R400.76** The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

**[Paragraphs 400.77 to 400.79 are intentionally left blank.]**

**Breach of an Independence Provision for Audit and Review Engagements**

*When a Firm Identifies a Breach*

**R400.80** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
  - (i) Comply with those requirements; and
  - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
  - (i) The engagement partner;
  - (ii) Those with responsibility for the policies and procedures relating to independence;

- (iii) Other relevant personnel in the firm and, where appropriate, the network; and
- (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit or review report; and
- (e) Depending on the significance of the breach, determine:
  - (i) Whether to end the audit or review engagement; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

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

400.80 A1 A breach of a provision of this Part might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit or review engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report or review report, as applicable, will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit or review engagement.
- Whether an audit or review team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit or review team member or another individual for whom there are independence requirements.
- If the breach relates to an audit or review team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion or a conclusion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit or review team.
- Using different individuals to conduct an additional review of the affected audit or review work or to re-perform that work to the extent necessary.

- Recommending that the audit or review client engage another firm to review or re-perform the affected audit or review work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R400.81** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit or review engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

**R400.82** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit or review report;
- (d) The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

*Communication of Breaches to Those Charged with Governance*

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

**R400.84** With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:
  - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
  - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

**R400.85** If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit or review engagement in accordance with paragraph R400.81.

*Breaches Before the Previous Audit Report Was Issued*

**R400.86** If the breach occurred prior to the issuance of the previous audit or review report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit or review report in the current period.

**R400.87** The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit or review reports, and the possibility of withdrawing such audit or review reports; and
- (b) Discuss the matter with those charged with governance.

*Documentation*

**R400.88** In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

**R400.89** If the firm continues with the audit or review engagement, it shall document:

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



## SECTION 410

### FEES

#### Introduction

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

#### Requirements and Application Material

##### Fees – Relative Size

###### *All Audit and Review Clients*

- NZ R410.3** As required by R120.10, where the threat cannot be eliminated or safeguards, where available and capable of being applied, cannot reduce the threat to an acceptable level, the firm shall end or decline the engagement.
- 410.3 A1 When the total fees generated from an audit or review client by the firm expressing the audit opinion or review conclusion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 410.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
  - Whether the firm is well established or new.
  - The significance of the client qualitatively and/or quantitatively to the firm.
- 410.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.
- 410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit or review client represent a large proportion of the revenue of one partner or one office of the firm.
- 410.3 A5 Factors that are relevant in evaluating the level of such threats include:
- The significance of the client qualitatively and/or quantitatively to the partner or office.
  - The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.
- 410.3 A6 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Increasing the client base of the partner or the office to reduce dependence on the audit or review client.
- Having an appropriate reviewer who did not take part in the audit or review engagement review the work.

#### Audit or Review Clients that are Public Interest Entities

**R410.4** Where an audit or review client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion or conclusion on the financial statements of the client, the firm shall:

- (a) Disclose to those charged with governance of the audit or review client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and
- (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:
  - (i) Prior to the audit opinion or review conclusion being issued on the second year's financial statements, an assurance practitioner, who is not a member of the firm expressing the opinion or conclusion on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
  - (ii) After the audit opinion or review conclusion on the second year's financial statements has been issued, and before the audit opinion or review conclusion being issued on the third year's financial statements, an assurance practitioner, who is not a member of the firm expressing the opinion or conclusion on the financial statements, or a professional body performs a review of the second year's audit or review that is equivalent to an engagement quality control review ("a post-issuance review").

**R410.5** When the total fees described in paragraph R410.4 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.

**R410.6** If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:

- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and
- (b) Comply with paragraphs R410.4(b) and R410.5.

#### Fees – Overdue

410.7 A1 A self-interest threat might be created if a significant part of fees is not paid before the audit or review report for the following year is issued. It is generally expected that the

firm will require payment of such fees before such audit or review report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

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

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

**R410.8** When a significant part of fees due from an audit or review client remains unpaid for a long time, the firm shall determine:

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

### **Contingent Fees**

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

**R410.10** A firm shall not charge directly or indirectly a contingent fee for an audit or review engagement.

**R410.11** A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit or review client, if:

- (a) The fee is charged by the firm expressing the opinion or conclusion on the financial statements and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the audit or review and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the financial statements.

410.12 A1 Paragraphs R410.10 and R410.11 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit or review client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit or review client, a self-interest threat might still be created.

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

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.

- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

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

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

## **SECTION 411**

### **COMPENSATION AND EVALUATION POLICIES**

#### **Introduction**

- 411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

##### **General**

- 411.3 A1 When an audit or review team member for a particular audit or review client is evaluated on or compensated for selling non-assurance services to that audit or review client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
  - (b) The role of the individual on the audit or review team; and
  - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
  - Removing that individual from the audit or review team.
- 411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit or review team member.
- R411.4** A firm shall not evaluate or compensate a key audit or key assurance partner based on that partner's success in selling non-assurance services to the partner's audit or review client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

## **SECTION 420**

### **GIFTS AND HOSPITALITY**

#### **Introduction**

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

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

- R420.3** A firm, network firm or an audit or review team member shall not accept gifts and hospitality from an audit or review client, unless the value is trivial and inconsequential.
- 420.3 A1 Where a firm, network firm or audit or review team member is offering or accepting an inducement to or from an audit or review client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 420.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm, network firm or audit or review team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

## **SECTION 430**

### **ACTUAL OR THREATENED LITIGATION**

#### **Introduction**

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

#### **Application Material**

##### **General**

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

## **SECTION 510**

### **FINANCIAL INTERESTS**

#### **Introduction**

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

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

##### **General**

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

##### **Financial Interests Held by the Firm, a Network Firm, Audit or Review Team Members and Others**

- R510.4** Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit or review client shall not be held by:
- (a) The firm or a network firm;
  - (b) An audit or review team member, or any of that individual’s immediate family;
  - (c) Any other partner in the office in which an engagement partner practices in connection with the audit or review engagement, or any of that other partner’s immediate family; or
  - (d) Any other partner or managerial employee who provides non-assurance services to the audit or review client, except for any whose involvement is minimal, or any of that individual’s immediate family.



510.4 A1 The office in which the engagement partner practices in connection with an audit or review engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other audit or review team members, professional judgement is needed to determine the office in which the partner practices in connection with the engagement.

**R510.5** As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an audit or review client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

### **Financial Interests in an Entity Controlling an Audit or Review Client**

**R510.6** When an entity has a controlling interest in an audit or review client and the client is material to the entity, neither the firm, nor a network firm, nor an audit or review team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

### **Financial Interests Held as Trustee**

**R510.7** Paragraph R510.4 shall also apply to a financial interest in an audit or review client held in a trust for which the firm, network firm or individual acts as trustee, unless:

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

### **Financial Interests in Common with the Audit or Review Client**

**R510.8** (a) A firm, or a network firm, or an audit or review team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit or review client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the audit or review team member and that individual's immediate family member and the audit or review client, as applicable; or
  - (ii) The audit or review client cannot exercise significant influence over the entity.
- (b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit or review team member, the individual or that individual's immediate family member shall either:
- (i) Dispose of the interest; or
  - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

### **Financial Interests Received Unintentionally**

**R510.9** If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit or review client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- (a) If the interest is received by the firm or a network firm, or an audit or review team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) (i) If the interest is received by an individual who is not an audit or review team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
- (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

### **Financial Interests – Other Circumstances**

#### *Immediate Family*

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit or review team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit or review client is also known to have a financial interest in that entity.

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

- The role of the individual on the audit or review team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.

- The materiality of the financial interest.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit or review team member with the financial interest from the audit or review team.

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

#### *Close Family*

510.10 A5 A self-interest threat might be created if an audit or review team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit or review client.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

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

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

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

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit or review team member.

#### *Other Individuals*

510.10 A9 A self-interest threat might be created if an audit or review team member knows that a financial interest in the audit or review client is held by individuals such as:

- Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
- Individuals with a close personal relationship with an audit or review team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm's organisational, operating and reporting structure.
- The nature of the relationship between the individual and the audit or review team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit or review team member with the personal relationship from the audit or review team.

510.10 A12                Examples of actions that might be safeguards to address such a self-interest threat include:

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

*Retirement Benefit Plan of a Firm or Network Firm*

510.10 A13                A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit or review client.

## **SECTION 511**

### **LOANS AND GUARANTEES**

#### **Introduction**

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

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

##### **General**

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

##### **Loans and Guarantees with an Audit or Review Client**

- R511.4** A firm, a network firm, an audit or review team member, or any of that individual’s immediate family shall not make or guarantee a loan to an audit or review client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
  - (b) The client.

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

- R511.5** A firm, a network firm, an audit or review team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an audit or review client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 511.5 A2 Even if a firm or network firm receives a loan from an audit or review client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the audit or review client or firm receiving the loan.
- 511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an audit or review team member, from a network firm that is not a beneficiary of the loan.

*Deposits or Brokerage Accounts*

**R511.6** A firm, a network firm, an audit or review team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit or review client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

**Loans and Guarantees with an Audit or Review Client that is Not a Bank or Similar Institution**

**R511.7** A firm, a network firm, an audit or review team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an audit or review client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

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

## **SECTION 520**

### **BUSINESS RELATIONSHIPS**

#### **Introduction**

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

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

##### **General**

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

##### **Firm, Network Firm, Audit or Review Team Member or Immediate Family Business Relationships**

- R520.4** A firm, a network firm or an audit or review team member shall not have a close business relationship with an audit or review client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit or review team member, as applicable.
- 520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit or review client or its management and the immediate family of an audit or review team member.

## **Common Interests in Closely-Held Entities**

- R520.5** A firm, a network firm, an audit or review team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit or review client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:
- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
  - (b) The financial interest is immaterial to the investor or group of investors; and
  - (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

## **Buying Goods or Services**

- 520.6 A1 The purchase of goods and services from an audit or review client by a firm, a network firm, an audit or review team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.
- 520.6 A2 Examples of actions that might eliminate such a self-interest threat include:
- Eliminating or reducing the magnitude of the transaction.
  - Removing the individual from the audit or review team.



## **SECTION 521**

### **FAMILY AND PERSONAL RELATIONSHIPS**

#### **Introduction**

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

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

##### **General**

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

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

- 521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an audit or review team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.
- 521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the audit or review team member.
- 521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit or review team.
- 521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit or review team so that the audit or review team member does not deal with matters that are within the responsibility of the immediate family member.

**R521.5** An individual shall not participate as an audit or review team member when any of that individual's immediate family:

- (a) Is a director or officer of the audit or review client;
- (b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion; or
- (c) Was in such position during any period covered by the engagement or the financial statements.

### **Close Family of an Audit or Review Team Member**

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

- (a) A director or officer of the audit or review client; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

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

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

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

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

### **Other Close Relationships of an Audit or Review Team Member**

**R521.7** An audit or review team member shall consult in accordance with firm policies and procedures if the audit or review team member has a close relationship with an individual who is not an immediate or close family member, but who is:

- (a) A director or officer of the audit or review client; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

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

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

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

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

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

**R521.8** Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A partner or employee of the firm or network firm who is not an audit or review team member; and
- (b) A director or officer of the audit or review client or an employee of the audit or review client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

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

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

521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

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

## **SECTION 522**

### **RECENT SERVICE WITH AN AUDIT OR REVIEW CLIENT**

#### **Introduction**

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

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

##### **Service During Period Covered by the Audit or Review Report**

- R522.3** The audit or review team shall not include an individual who, during the period covered by the audit or review report:
- (a) Had served as a director or officer of the audit or review client; or
  - (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

##### **Service Prior to Period Covered by the Audit or Review Report**

- 522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit or review report, an audit or review team member:
- (a) Had served as a director or officer of the audit or review client; or
  - (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion or a conclusion.

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

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

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

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

## SECTION 523

### SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT OR REVIEW CLIENT

#### Introduction

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

#### Requirements and Application Material

##### Service as Director or Officer

**R523.3** *-[Amended by the NZAuASB. Refer to NZ R523.3.1]*

**NZ R523.3.1** A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or receiver of an audit or review client of the firm.

##### Service as Company Secretary

- R523.4** A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit or review client of the firm, unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
  - (b) Management makes all relevant decisions; and
  - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit or review client. (More information on providing non-assurance services to an audit client is set out in Section 600, *Provision of Non-assurance Services to an Audit or Review Client*.)

## SECTION 524

### EMPLOYMENT WITH AN AUDIT OR REVIEW CLIENT

#### Introduction

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

#### Requirements and Application Material

##### All Audit or Review Clients

- 524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit or review team member or partner of the firm or a network firm:
- A director or officer of the audit or review client.
  - An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

##### *Former Partner or Audit or Review Team Member Restrictions*

- R524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:
- (a) A former partner who has joined an audit or review client of the firm; or
  - (b) A former audit or review team member who has joined the audit or review client, if either has joined the audit or review client as:
    - (i) A director or officer; or
    - (ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
- (b) Any amount owed to the individual is not material to the firm or the network firm; and
- (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

- 524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.
- 524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit or review client of the firm.
- 524.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
  - Any involvement the individual will have with the audit or review team.
  - The length of time since the individual was an audit or review team member or partner of the firm or network firm.
  - The former position of the individual within the audit or review team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.
- 524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:
- Modifying the audit or review plan.
  - Assigning to the audit or review team individuals who have sufficient experience relative to the individual who has joined the client.
  - Having an appropriate reviewer review the work of the former audit or review team member.

#### *Audit or Review Team Members Entering Employment with a Client*

- R524.5** A firm or network firm shall have policies and procedures that require audit or review team members to notify the firm or network firm when entering employment negotiations with an audit or review client.
- 524.5 A1 A self-interest threat is created when an audit or review team member participates in the audit or review engagement while knowing that the audit or review team member will, or might, join the client at some time in the future.
- 524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit or review team.
- 524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that individual while on the team.

#### *Audit or Review Clients that are Public Interest Entities*

##### Key Audit or Key Assurance Partners

- R524.6** Subject to paragraph R524.8, if an individual who was a key audit or key assurance partner with respect to an audit or review client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion,

independence is compromised unless, subsequent to the individual ceasing to be a key audit or key assurance partner:

- (i) The audit or review client has issued audited or reviewed financial statements covering a period of not less than twelve months; and
- (ii) The individual was not an audit or review team member with respect to the audit or review of those financial statements.

#### Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

**R524.7** Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit or review client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion,

independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

#### Business Combinations

**R524.8** As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm as applicable;
- (c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former partner's position held with the audit or review client with those charged with governance.



## **SECTION 525**

### **TEMPORARY PERSONNEL ASSIGNMENTS**

#### **Introduction**

- 525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 525.2 The loan of personnel to an audit or review client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

##### **General**

- 525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit or review client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
  - Not including the loaned personnel as an audit or review team member might address a familiarity or advocacy threat.
  - Not giving the loaned personnel audit or review responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit or review client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R525.4** A firm or network firm shall not loan personnel to an audit or review client unless:
- (a) Such assistance is provided only for a short period of time;
  - (b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and
  - (c) The personnel do not assume management responsibilities and the audit or review client is responsible for directing and supervising the activities of the personnel.

## **SECTION 540**

### **LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT**

#### **Introduction**

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

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

##### **All Audit Clients**

- 540.3 A1 Although an understanding of an audit or review client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with:
- (a) The audit or review client and its operations;
  - (b) The audit or review client's senior management; or
  - (c) The financial statements on which the firm will express an opinion or a conclusion or the financial information which forms the basis of the financial statements.
- 540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.
- 540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
    - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
    - How long the individual has been an engagement team member, and the nature of the roles performed.
    - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
    - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit or review client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit or review engagement over a long period of time would be rotating the individual off the audit or review team.

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

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

**R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit or review team, the firm shall determine an appropriate period during which the individual shall not:

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

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

*Audit or Review Clients that are Public Interest Entities*

**R540.5** Subject to paragraphs R540.7 to R540.9, in respect of an audit or review of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years<sup>3</sup> (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review;  
or
- (c) Any other key audit or key assurance partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

**R540.6** In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit or key assurance partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

**R540.7** As an exception to paragraph R540.5, key audit or key assurance partners whose continuity is especially important to audit or engagement quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit or key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

**R540.8** If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an

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<sup>3</sup> Law, regulation or other standards may specify a shorter time-on period.

exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

**R540.9** When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

#### Other Considerations Relating to the Time-on Period

**R540.10** In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.

540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

#### Cooling-off Period

**R540.11** If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

**R540.12** Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

**R540.13** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

#### Service in a combination of key audit partner roles

**R540.14** If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

**R540.15** Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall be three consecutive years.

**R540.16** If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R540.17** If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

#### Service at a Prior Firm

**R540.18** In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

#### Shorter Cooling-off Period Established by Law or Regulation

**R540.19** Where a legislative or regulatory body (or organisation authorised or recognised by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

#### Restrictions on Activities During the Cooling-off Period

**R540.20** For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or provide quality control for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:
  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) Exerting direct influence on the outcome of the audit engagement.

540.20 A1 The provisions of paragraph R540.20 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

## SECTION 600

### PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT OR REVIEW CLIENT

#### Introduction

- 600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit or review clients, consistent with their skills and expertise. Providing non-assurance services to audit or review clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit or review clients. The subsections that follow set out specific requirements and application material relevant when a firm or network firm provides certain non-assurance services to audit or review clients and indicate the types of threats that might be created as a result. Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit or review client in certain circumstances because the threats created cannot be addressed by applying safeguards.

#### Requirements and Application Material

##### General

- R600.4** Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit or review client, the firm shall determine whether providing such a service might create a threat to independence.
- 600.4 A1 The requirements and application material in this section assist the firm in analysing certain types of non-assurance services and the related threats that might be created if a firm or network firm provides non-assurance services to an audit or review client.
- 600.4 A2 New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit or review client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit or review client.

##### *Evaluating Threats*

- 600.5 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit or review client include:
- The nature, scope and purpose of the service.
  - The degree of reliance that will be placed on the outcome of the service as part of the audit or review.
  - The legal and regulatory environment in which the service is provided.



- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion or a conclusion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The level of expertise of the client’s management and employees with respect to the type of service provided.
- The extent of the client’s involvement in determining significant matters of judgement.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client’s:
  - Accounting records or financial statements on which the firm will express an opinion or a conclusion.
  - Internal controls over financial reporting.
- Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.

600.5 A2 Subsections 601 to 610 include examples of additional factors that are relevant in evaluating the level of threats created by providing the non-assurance services set out in those subsections.

#### Materiality in Relation to Financial Statements

600.5 A3 Subsections 601 to 610 refer to materiality in relation to an audit or review client’s financial statements. The concept of materiality in relation to an audit is addressed in ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE (NZ) 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

#### Multiple Non-assurance Services Provided to the Same Audit or Review Client

600.5 A4 A firm or network firm might provide multiple non-assurance services to an audit or review client. In these circumstances the consideration of the combined effect of threats created by providing those services is relevant to the firm’s evaluation of threats.

#### *Addressing Threats*

600.6 A1 Subsections 601 to 610 include examples of actions, including safeguards, that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level. Those examples are not exhaustive.

- 600.6 A2 Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit or review client in certain circumstances because the threats created cannot be addressed by applying safeguards.
- 600.6 A3 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to audit or review clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a non-assurance service to an audit or review client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit or review engagement.

*Prohibition on Assuming Management Responsibilities*

**R600.7** A firm or a network firm shall not assume a management responsibility for an audit or review client.

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

600.7 A2 Providing a non-assurance service to an audit or review client creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

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

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
  - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
  - Designing, implementing, monitoring or maintaining internal control.

600.7 A4 Providing advice and recommendations to assist the management of an audit or review

client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. R600.7 to 600.7 A3).

**R600.8** To avoid assuming a management responsibility when providing any non-assurance service to an audit or review client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the services; and
- (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

*Providing Non-Assurance Services to an Audit or Review Client that Later Becomes a Public Interest Entity*

**R600.9** A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit or review client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit or review clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit or review clients that are public interest entities are ended before, or as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm addresses threats that are created that are not at an acceptable level.

*Considerations for Certain Related Entities*

**R600.10** This section includes requirements that prohibit firms and network firms from assuming management responsibilities or providing certain non-assurance services to audit or review clients. As an exception to those requirements, a firm or network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion or a conclusion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or

- (c) An entity which is under common control with the client, provided that all of the following conditions are met:
- (i) The firm or a network firm does not express an opinion or a conclusion on the financial statements of the related entity;
  - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion or a conclusion;
  - (iii) The services do not create a self-review threat because the results of the services will not be subject to audit or review procedures; and
  - (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

## **SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES**

### **Introduction**

- 601.1 Providing accounting and bookkeeping services to an audit or review client might create a self-review threat.
- 601.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an audit or review client with accounting and bookkeeping services. This subsection includes requirements that prohibit firms and network firms from providing certain accounting and bookkeeping services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

### **Requirements and Application Material**

#### **All Audit or Review Clients**

- 601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:
- Preparing accounting records and financial statements.
  - Recording transactions.
  - Payroll services.
- 601.3 A2 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:
- Determining accounting policies and the accounting treatment in accordance with those policies.
  - Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
    - Purchase orders.
    - Payroll time records.

- Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

601.3 A3 The audit or review process necessitates dialogue between the firm and the management of the audit or review client, which might involve:

- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit or review process and do not usually create threats as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analysing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:

- Complying with group accounting policies.
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.

*Accounting and Bookkeeping Services that are Routine or Mechanical*

601.4 A1 Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgement. Some examples of these services are:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

*Audit or Review Clients that are Not Public Interest Entities*

- R601.5** A firm or a network firm shall not provide to an audit or review client that is not a public interest entity 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, unless:
- (a) The services are of a routine or mechanical nature; and
  - (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.
- 601.5 A1 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit or review client include:
- Using professionals who are not audit or review team members to perform the service.
  - Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

*Audit or Review Clients that are Public Interest Entities*

- R601.6** Subject to paragraph R601.7, a firm or a network firm shall not provide to an audit or review client that is a public interest entity 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.
- R601.7** As an exception to paragraph R601.6, a firm or network firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit or review client that is a public interest entity if the personnel providing the services are not audit or review team members and:
- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion or a conclusion; or
  - (b) The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.

**SUBSECTION 602 – ADMINISTRATIVE SERVICES**

**Introduction**

- 602.1 Providing administrative services to an audit or review client does not usually create a threat.
- 602.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing administrative services.

## **Application Material**

### **All Audit or Review Clients**

602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgement and are clerical in nature.

602.3 A2 Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit or review client of those dates.

## **SUBSECTION 603 – VALUATION SERVICES**

### **Introduction**

603.1 Providing valuation services to an audit or review client might create a self-review or advocacy threat.

603.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing valuation services to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain valuation services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

### **Requirements and Application Material**

#### **All Audit or Review Clients**

603.3 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

603.3 A2 If a firm or network firm is requested to perform a valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.9 A1 to 604.9 A5, relating to such services, applies.

603.3 A3 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit or review client include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement.

- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent and clarity of the disclosures related to the valuation in the financial statements.
- The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.

603.3 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

*Audit or Review Clients that are Not Public Interest Entities*

**R603.4** A firm or a network firm shall not provide a valuation service to an audit or review client that is not a public interest entity if:

- (a) The valuation involves a significant degree of subjectivity; and
- (b) The valuation will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

*Audit or Review Clients that are Public Interest Entities*

**R603.5** A firm or a network firm shall not provide a valuation service to an audit or review client that is a public interest entity if the valuation service would have a material effect, individually or in the aggregate, on the financial statements on which the firm will express an opinion or a conclusion.

**SUBSECTION 604 – TAX SERVICES**

**Introduction**

604.1 Providing tax services to an audit or review client might create a self-review or advocacy threat.

604.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a tax service to an audit or review client. This subsection includes requirements that prohibit firms and network firms



from providing certain tax services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

## **Requirements and Application Material**

### **All Audit or Review Clients**

604.3 A1 Tax services comprise a broad range of services, including activities such as:

- Tax return preparation.
- Tax calculations for the purpose of preparing the accounting entries.
- Tax planning and other tax advisory services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.

604.3 A2 Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit or review client include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

### **Tax Return Preparation**

#### *All Audit or Review Clients*

604.4 A1 Providing tax return preparation services does not usually create a threat.

604.4 A2 Tax return preparation services involve:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions and responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

604.4 A3 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate.

## **Tax Calculations for the Purpose of Preparing Accounting Entries**

### *All Audit or Review Clients*

- 604.5 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit or review client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.
- 604.5 A2 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing such calculations for an audit or review client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

### *Audit or Review Clients that are Not Public Interest Entities*

- 604.5 A3 Examples of actions that might be safeguards to address such a self-review threat when the audit or review client is not a public interest entity include:
- Using professionals who are not audit or review team members to perform the service.
  - Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

### *Audit or Review Clients that are Public Interest Entities*

- R604.6** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit or review client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion or a conclusion.
- 604.6 A1 The examples of actions that might be safeguards in paragraph 604.5 A3 to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit or review client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion or a conclusion.

## **Tax Planning and Other Tax Advisory Services**

### *All Audit or Review Clients*

- 604.7 A1 Providing tax planning and other tax advisory services might create a self-review or advocacy threat.
- 604.7 A2 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.
- 604.7 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax planning and other tax advisory services to audit or review clients include:
- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.

- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.  
For example, whether the advice provided as a result of the tax planning and other tax advisory services:
  - Is clearly supported by a tax authority or other precedent.
  - Is an established practice.
  - Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice will have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

604.7 A4 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

**R604.8** A firm or a network firm shall not provide tax planning and other tax advisory services to an audit or review client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a) The audit or review team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

### **Tax Services Involving Valuations**

*All Audit or Review Clients*

604.9 A1 Providing tax valuation services to an audit or review client might create a self-review or advocacy threat.

- 604.9 A2 A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.
- 604.9 A3 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in evaluating the level of self-review or advocacy threats created by providing those services to an audit client:
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
  - The degree of subjectivity inherent in the valuation.
  - The reliability and extent of the underlying data.
- 604.9 A4 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
  - Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.
  - Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.
- 604.9 A5 A firm or network firm might also perform a tax valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.

## **Assistance in the Resolution of Tax Disputes**

### *All Audit or Review Clients*

- 604.10 A1 Providing assistance in the resolution of tax disputes to an audit or review client might create a self-review or advocacy threat.
- 604.10 A2 A tax dispute might reach a point when the tax authorities have notified an audit or review client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court.
- 604.10 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit or review client in the resolution of tax disputes include:
- The role management plays in the resolution of the dispute.

- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.
- Whether the advice that was provided is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

604.10 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

#### Resolution of Tax Matters Involving Acting as An Advocate

**R604.11** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit or review client if:

- (a) The services involve acting as an advocate for the audit or review client before a public tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion or a conclusion.

604.11 A1 Paragraph R604.11 does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analysing the tax issues related to the matter.

604.11 A2 What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

### **SUBSECTION 605 – INTERNAL AUDIT SERVICES**

#### **Introduction**

605.1 Providing internal audit services to an audit or review client might create a self-review threat.

605.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an internal audit service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain internal audit services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

## Requirements and Application Material

### All Audit Clients

605.3 A1 Internal audit services involve assisting the audit or review client in the performance of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
  - Reviewing the means used to identify, measure, classify and report financial and operating information.
  - Enquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

605.3 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance.

**R605.4** When providing an internal audit service to an audit or review client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to:
  - (i) Be responsible at all times for internal audit activities; and
  - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control.
- (b) The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

- 605.4 A1 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.
- 605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:
- Setting internal audit policies or the strategic direction of internal audit activities.
  - Directing and taking responsibility for the actions of the entity's internal audit employees.
  - Deciding which recommendations resulting from internal audit activities to implement.
  - Reporting the results of the internal audit activities to those charged with governance on behalf of management.
  - Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
  - Taking responsibility for designing, implementing, monitoring and maintaining internal control.
  - Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.
- 605.4 A3 When a firm uses the work of an internal audit function in an audit engagement, ISAs (NZ) require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or network firm accepts an engagement to provide internal audit services to an audit or review client, the results of those services might be used in conducting the external audit or review. This creates a self-review threat because it is possible that the audit or review team will use the results of the internal audit service for purposes of the audit or review engagement without:
- (a) Appropriately evaluating those results; or
  - (b) Exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.
- 605.4 A4 Factors that are relevant in evaluating the level of such a self-review threat include:
- The materiality of the related financial statement amounts.
  - The risk of misstatement of the assertions related to those financial statement amounts.
  - The degree of reliance that the audit or review team will place on the work of the internal audit service, including in the course of an external audit.
- 605.4 A5 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit or review team members to perform the service.

## *Audit or Review Clients that are Public Interest Entities*

**R605.5** A firm or a network firm shall not provide internal audit services to an audit or review client that is a public interest entity, if the services relate to:

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, individually or in the aggregate, material to the client's accounting records or financial statements on which the firm will express an opinion or a conclusion; or
- (c) Amounts or disclosures that are, individually or in the aggregate, material to the financial statements on which the firm will express an opinion or a conclusion.

## **SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES**

### **Introduction**

606.1 Providing information technology (IT) systems services to an audit or review client might create a self-review threat.

606.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an IT systems service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

### **Requirements and Application Material**

#### **All Audit or Review Clients**

606.3 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit or review client's accounting records or the internal control over financial reporting or financial statements.

606.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following IT systems services to an audit or review client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;



- (c) Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm or network firm, if the customisation required to meet the client’s needs is not significant; and
- (d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

**R606.4** When providing IT systems services to an audit or review client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

606.4 A1 Factors that are relevant in evaluating the level of a self-review threat created by providing IT systems services to an audit or review client include:

- The nature of the service.
- The nature of IT systems and the extent to which they impact or interact with the client’s accounting records or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit or review.

606.4 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit or review team members to perform the service.

*Audit or Review Clients that are Public Interest Entities*

**R606.5** A firm or a network firm shall not provide IT systems services to an audit or review client that is a public interest entity if the services involve designing or implementing IT systems that:

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client’s accounting records or financial statements on which the firm will express an opinion or a conclusion.

**SUBSECTION 607 – LITIGATION SUPPORT SERVICES**

**Introduction**

607.1 Providing certain litigation support services to an audit or review client might create a

self-review or advocacy threat.

607.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a litigation support service to an audit or review client.

## **Application Material**

### **All Audit or Review Clients**

607.3 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.

607.3 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit or review client include:

- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

607.3 A3 An example of an action that might be a safeguard to address such a self-review or advocacy threat is using a professional who was not an audit or review team member to perform the service.

607.3 A4 If a firm or a network firm provides a litigation support service to an audit or review client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion or a conclusion, the requirements and application material set out in Subsection 603 related to valuation services apply.

## **SUBSECTION 608 – LEGAL SERVICES**

### **Introduction**

- 608.1 Providing legal services to an audit or review client might create a self-review or advocacy threat.
- 608.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a legal service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain legal services to audit or review clients in some circumstances because the threats cannot be addressed by applying safeguards.

### **Requirements and Application Material**

#### **All Audit or Review Clients**

- 608.3 A1 Legal services are defined as any services for which the individual providing the services must either:
- (a) Have the required legal training to practice law; or
  - (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

#### *Acting in an Advisory Role*

- 608.4 A1 Depending on the jurisdiction, legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit or review clients, such as:
- Contract support.
  - Supporting an audit or review client in executing a transaction.
  - Mergers and acquisitions.
  - Supporting and assisting an audit or review client's internal legal department.
  - Legal due diligence and restructuring.
- 608.4 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing legal advisory services to an audit or review client include:
- The materiality of the specific matter in relation to the client's financial statements.
  - The complexity of the legal matter and the degree of judgement necessary to provide the service.
- 608.4 A3 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit or review team members to perform the service might address a self-review or advocacy threat.

- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

*Acting as General Counsel*

**R608.5** A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit or review client.

608.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

*Acting in an Advocacy Role*

**R608.6** A firm or a network firm shall not act in an advocacy role for an audit or review client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion or a conclusion.

608.6 A1 Examples of actions that might be safeguards to address a self-review threat created when acting in an advocacy role for an audit or review client when the amounts involved are not material to the financial statements on which the firm will express an opinion or a conclusion include:

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed.

**SUBSECTION 609 – RECRUITING SERVICES**

**Introduction**

609.1 Providing recruiting services to an audit or review client might create a self-interest, familiarity or intimidation threat.

609.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a recruiting service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain types of recruiting services to audit or review clients in some circumstances because the threats created cannot be addressed by applying safeguards.

## **Requirements and Application Material**

### **All Audit or Review Clients**

609.3 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.
  - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

609.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

**R609.4** When a firm or network firm provides recruiting services to an audit or review client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
  - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
  - Determining employment terms and negotiating details, such as salary, hours and other compensation.

609.5 A1 Factors that are relevant in evaluating the level of self-interest, familiarity or intimidation threats created by providing recruiting services to an audit or review client include:

- The nature of the requested assistance.
- The role of the individual to be recruited.

- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.5 A2 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit or review team members to perform the service.

#### *Recruiting Services that are Prohibited*

**R609.6** When providing recruiting services to an audit or review client, the firm or the network firm shall not act as a negotiator on the client's behalf.

**R609.7** A firm or a network firm shall not provide a recruiting service to an audit or review client if the service relates to:

- (a) Searching for or seeking out candidates; or
- (b) Undertaking reference checks of prospective candidates, with respect to the following positions:
  - (i) A director or officer of the entity; or
  - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion.

### **SUBSECTION 610 – CORPORATE FINANCE SERVICES**

#### **Introduction**

610.1 Providing corporate finance services to an audit or review client might create a self-review or advocacy threat.

610.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a corporate finance service to an audit or review client. This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to audit or review clients because the threats created cannot be addressed by applying safeguards.

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

##### **All Audit and Review Clients**

610.3 A1 Examples of corporate finance services that might create a self-review or advocacy threat include:

- Assisting an audit or review client in developing corporate strategies.
- Identifying possible targets for the audit or review client to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.

- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion or a conclusion.

610.3 A2 Factors that are relevant in evaluating the level of such threats created by providing corporate finance services to an audit or review client include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
  - The amounts are material to the financial statements.
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

610.3 A3 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

#### *Corporate Finance Services that are Prohibited*

**R610.4** A firm or a network firm shall not provide corporate finance services to an audit or review client that involve promoting, dealing in, or underwriting the audit or review client's shares.

**R610.5** A firm or a network firm shall not provide corporate finance advice to an audit or review client where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion or a conclusion and:

- (a) The audit or review team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion or a conclusion.

## **SECTION 800**

### **REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)**

#### **Introduction**

- 800.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits or reviews of special purpose financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an “eligible audit or review engagement.”

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

##### **General**

- R800.3** When a firm intends to issue a report on an audit or review of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:
- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
  - (b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.
- 800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.
- R800.4** Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.
- 800.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm’s engagement letter available to the members



of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

**R800.5** When the firm performs an eligible audit or review engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm shall not apply these modifications when an audit or review of financial statements is required by law or regulation.

**R800.6** If the firm also issues an audit or review report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A to that audit or review engagement.

### **Public Interest Entities**

**R800.7** When the firm performs an eligible audit or review engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit or review engagements.

### **Related Entities**

**R800.8** When the firm performs an eligible audit or review engagement, references to “audit or review client” in Part 4A do not need to include its related entities. However, when the audit or review team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm’s independence of the client, the audit or review team shall include that related entity when identifying, evaluating and addressing threats to independence.

### **Networks and Network Firms**

**R800.9** When the firm performs an eligible audit or review engagement, the specific requirements regarding network firms set out in Part 4A do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

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

**R800.10** When the firm performs an eligible audit or review engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit or review client and the following audit or review team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

- (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit or review client and others within the firm who can directly influence the outcome of the audit or review engagement.

800.10 A1 Others within a firm who can directly influence the outcome of the audit or review engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit or review engagement partner in connection with the performance of the audit or review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

**R800.11** When the firm performs an eligible audit or review engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit or review client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

**R800.12** When the firm performs an eligible audit or review engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit or review client.

#### **Employment with an Audit or Review Client**

**R800.13** When the firm performs an eligible audit or review engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

#### **Providing Non-Assurance Services**

**R800.14** If the firm performs an eligible audit or review engagement and provides a non-assurance service to the audit or review client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

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

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

### **SECTION 900**

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

##### **Introduction**

##### **General**

- 900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:
- Assurance on an entity’s key performance indicators.
  - Assurance on an entity’s compliance with law or regulation.
  - Assurance on performance criteria, such as value for money, achieved by a public sector body.
  - Assurance on the effectiveness of an entity’s system of internal control.
  - Assurance on an entity’s greenhouse gas statement.
  - An audit of specific elements, accounts or items of a financial statement.
- 900.2 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.
- 900.3 Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. In addition, International Standards on Assurance Engagements (New Zealand), Standards on Assurance Engagements and International Standards on Auditing (New Zealand) establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with Professional and Ethical Standard 3 (Amended). Additionally, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.
- 900.4 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional scepticism has been compromised.

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

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

900.6 This Part describes:

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

### **Description of Assurance Engagements**

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

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

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

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

### **Audit and Review Engagements**

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

in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

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

## **Requirements and Application Material**

### **General**

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

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

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

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

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

**NZ R900.12.1** Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

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

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

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

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

### **Network Firms**

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

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

### **Related Entities**

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

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

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

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

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

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

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

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

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

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

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

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

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

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

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

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

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.



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

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

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

#### *When a Firm Identifies a Breach*

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

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

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

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

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

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

#### *Documentation*

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

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and

- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

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

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

## SECTION 905

### FEES

#### Introduction

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

#### Requirements and Application Material

##### Fees—Relative Size

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

##### Fees—Overdue

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

the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

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

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

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

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

### **Contingent Fees**

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

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

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

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

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

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

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

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

## **SECTION 906**

### **GIFTS AND HOSPITALITY**

#### **Introduction**

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

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

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

## **SECTION 907**

### **ACTUAL OR THREATENED LITIGATION**

#### **Introduction**

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

#### **Application Material**

##### **General**

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

## **SECTION 910**

### **FINANCIAL INTERESTS**

#### **Introduction**

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

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

##### **General**

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

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

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

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

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



## **Financial Interests Held as Trustee**

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

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

## **Financial Interests Received Unintentionally**

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

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

## **Financial Interests – Other Circumstances**

### *Close Family*

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

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

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

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

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

- Removing the individual from the assurance team.

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

*Other Individuals*

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

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

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

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

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

## **SECTION 911**

### **LOANS AND GUARANTEES**

#### **Introduction**

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

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

##### **General**

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

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

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

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

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

*Deposit or Brokerage Accounts*

**R911.6** A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

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

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

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

## **SECTION 920**

### **BUSINESS RELATIONSHIPS**

#### **Introduction**

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

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

##### **General**

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

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

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

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

- 920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual’s immediate family does not usually create a

threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

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

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

## SECTION 921

### FAMILY AND PERSONAL RELATIONSHIPS

#### Introduction

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

#### Requirements and Application Material

##### General

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

## SECTION 922

### RECENT SERVICE WITH AN ASSURANCE CLIENT

#### Introduction

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

#### Requirements and Application Material

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

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

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

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

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

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

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

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

## SECTION 923

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

#### Introduction

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

#### Requirements and Application Material

##### Service as Director or Officer

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

##### Service as Company Secretary

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

## SECTION 924

### EMPLOYMENT WITH AN ASSURANCE CLIENT

#### Introduction

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

#### Requirements and Application Material

##### General

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

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

- R924.4** If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:

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

the individual shall not continue to participate in the firm's business or professional activities.

- 924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.
- 924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.

924.4 A3 Factors that are relevant in evaluating the level of such threats include:

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

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

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

*Assurance Team Members Entering Employment Negotiations with a Client*

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

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

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

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

## **SECTION 940**

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

#### **Introduction**

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

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

##### **General**

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

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

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

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

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

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

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

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

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

## SECTION 950

### PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS

#### Introduction

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

#### Requirements and Application Material

##### General

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

##### *Evaluating Threats*

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



- The extent of the assurance client’s involvement in determining significant matters of judgement.
- The level of expertise of the client’s management and employees with respect to the type of service provided.

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

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

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

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

#### *Addressing Threats*

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

#### *Prohibition on Assuming Management Responsibilities*

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

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

950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates

a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

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

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

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

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

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the services; and
- (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

(b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

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

950.8 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes

the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

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

## **SECTION 990**

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

#### **Introduction**

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

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

##### **General**

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

of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

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

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

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

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

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

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

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

## GLOSSARY

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

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

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

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



Criteria	In an assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.
Direct engagement	An assurance engagement in which the assurance practitioner measures or evaluates the underlying subject matter against the applicable criteria and the assurance practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	A financial interest: <ul style="list-style-type: none"> <li>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li> <li>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.</li> </ul>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement partner <sup>4</sup>	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.
Engagement period (Assurance Engagements Other	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the

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<sup>4</sup> Engagement partner: should be read as referring to their public sector equivalents where relevant.

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

Firm	<p>(a) A sole practitioner, partnership or corporation undertaking assurance engagements;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties, through ownership, management or other means.</p> <p><i>Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.</i></p>
[NZ] FMC reporting entity considered to have a higher level of public accountability	<p>A FMC reporting entity of a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:</p> <ul style="list-style-type: none"> <li>• Under section 461K of the Financial Markets Conduct Act 2013; or</li> <li>• By notice issued by the Financial Markets Authority under section 461L(1)(1) of the Financial Markets Conduct Act 2013.</li> </ul>
Fundamental principles	<p><i>This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:</i></p> <p><i>Integrity</i> <span style="float: right;"><i>R111.1</i></span></p> <p><i>Objectivity</i> <span style="float: right;"><i>R112.1</i></span></p> <p><i>Professional competence and due care</i> <span style="float: right;"><i>R113.1</i></span></p> <p><i>Confidentiality</i> <span style="float: right;"><i>R114.1</i></span></p> <p><i>Professional behaviour</i> <span style="float: right;"><i>R115.1</i></span></p>
Historical financial information	<p>Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.</p>
Immediate family	<p>A spouse (or equivalent) or dependent.</p>
Independence	<p>Independence comprises:</p> <p>(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.</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed</p>

third party would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional scepticism has been compromised.

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

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

May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>
Might	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i>
Network	<p>A larger structure:</p> <ul style="list-style-type: none"> <li>(a) That is aimed at co-operation; and</li> <li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li> </ul>
Network firm	<p>A firm or entity that belongs to a network.</p> <p><i>For further information, see paragraphs 400.50 A1 to 400.54 A1.</i></p>
<p>Non-compliance with laws and regulations (assurance practitioners performing professional activities pursuant to their relationship with the firm)</p>	<p><i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i></p> <ul style="list-style-type: none"> <li>(a) <i>An assurance practitioner’s employing organisation;</i></li> <li>(b) <i>Those charged with governance of the employing organisation;</i></li> <li>(c) <i>Management of the employing organisation; or</i></li> <li>(d) <i>Other individuals working for or under the direction of the employing organisation</i></li> </ul> <p><i>This term is described in paragraph 260.5 A1.</i></p>
<p>Non-compliance with laws and regulations (assurance practitioners)</p>	<p><i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i></p> <ul style="list-style-type: none"> <li>(a) <i>A client;</i></li> <li>(b) <i>Those charged with governance of a client;</i></li> <li>(c) <i>Management of a client; or</i></li> <li>(d) <i>Other individuals working for or under the direction of a client.</i></li> </ul>

*This term is described in paragraph 360.5 A1.*

[NZ] Offer document	A document, such as a product disclosure statement or a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.
Office	A distinct sub-group, whether organised on geographical or practice lines.
Predecessor accountant	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.
Professional accountant	<i>[Deleted by the NZAuASB]</i>
Professional accountant in business	<i>[Deleted by the NZAuASB]</i>
Professional accountant in public practice	<i>[Deleted by the NZAuASB]</i>
Professional activity	An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, tax, management consulting, and financial management.
Professional 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).
[NZ] Public interest entity	Any entity that meets the Tier 1 criteria in accordance with XRB A1 <sup>5</sup> and is not eligible to report in accordance with the accounting requirements of another tier.
Reasonable and informed third party	<i>The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the</i>

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<sup>5</sup> XRB A1 *Application of the Accounting Standards Framework*

Reasonable and informed third party test	<p><i>perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.</i></p> <p><i>These terms are described in paragraph R120.5 A4.</i></p>
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> <li>(a) An entity that has direct or indirect control over the client if the client is material to such entity;</li> <li>(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;</li> <li>(c) An entity over which the client has direct or indirect control;</li> <li>(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li> <li>(e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.</li> </ul>
Responsible party	In an assurance engagement, the party responsible for the underlying subject matter.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with <i>International Standards on Review Engagements (New Zealand) 2400</i> or New Zealand Standard on Review Engagements 2410, in which an assurance practitioner expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	<ul style="list-style-type: none"> <li>(a) All members of the engagement team for the review engagement; and</li> <li>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</li> </ul>

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraph 120.10 A2.</i></p>
Senior assurance practitioner	<p><i>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.</i></p> <p><i>This term is described in paragraph 260.11 A1</i></p>
Substantial harm	<p><i>This term is described in paragraphs 260.5 A3 and 360.5 A3.</i></p>
Special purpose financial statements	<p>Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</p>
Subject matter information	<p>The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.</p>
Those charged with governance	<p>The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.</p>



Threats	<i>This term is described in paragraph 120.6 A3 and includes the following categories:</i>
	<i>Self interest</i> <i>120.6 A3(a)</i>
	<i>Self-review</i> <i>120.6 A3(b)</i>
	<i>Advocacy</i> <i>120.6 A3(c)</i>
	<i>Familiarity</i> <i>120.6 A3(d)</i>
	<i>Intimidation</i> <i>120.6 A3(e)</i>
Time-on period	<i>This term is described in paragraph R540.5.</i>
Underlying subject matter	The phenomenon that is measured or evaluated by applying criteria.

## **EFFECTIVE DATE**

Subject to the transitional provision below

Parts 1 and 3 of the restructured Code will be effective on 15 June 2019.

Part 2 is effective on 15 December 2020.

Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after 15 June 2019.

Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after 15 June 2019; otherwise, it will be effective on 15 June 2019.

Paragraph R540.19 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

Early adoption is permitted.

### **WITHDRAWAL OF PES 1 (REVISED)**

This Standard supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*.

## **ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL AND AUSTRALIAN CODE OF ETHICS**

This conformity statement accompanies but is not part of Professional and Ethical Standard 1.

The principles and requirements of PES 1 are consistent with the International Code except for the following:

- The addition of a scope and application section. PES 1 has a narrower scope and is intended to apply to all assurance practitioners appointed or engaged to perform an assurance engagement. The International Code applies to all professional accountants.
- PES 1 refers to assurance practitioners whereas the International Code refers to professional accountants. Section 321 *Second Opinions* has been deleted by the NZAuASB as it does not relate to assurance engagements.
- The addition of paragraphs and definitions prefixed as NZ in PES 1. The additional definitions are of assurance services, assurance practitioner, FMC reporting entity considered to have a higher level of public accountability, key assurance partner, and offer document;
- PES 1 tailors the following IESBA defined terms in the New Zealand environment: assurance client, audit client and public interest entity;
- NZ 310.9.1 requires the assurance practitioner to disclose, in writing, the nature of the conflict of interest and the related safeguards applied to eliminate the threat or reduce it to an acceptable level to all clients or potential clients affected by the conflict. NZ R310.9.2 requires the assurance practitioner to obtain the clients consent, in writing, to perform the assurance services when safeguards are applied. The International Code states that disclosure is generally necessary.
- NZ R310.12.1 requires an assurance practitioner to disengage from the relevant assurance engagement if adequate disclosure to the client of a conflict of interest is restricted as a result of confidentiality requirements. The International Code allows the engagement to proceed in limited circumstances.
- The requirements of section 360 of the International Code (paragraphs R360.10 – NZ 360.28 A1.1) that apply only to audits of financial statements have been broadened to apply to audit and review engagements.

### **Independence requirements**

- Part 4A describes the independence requirements for audits and reviews of historical financial information. NZ400.2.1 extends the scope of Part 4A to cover all assurance engagements in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information or a combination of these.
- NZ R400.12.1 and NZ 900.15.1 require that when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner evaluate the significance of those threats in aggregate and apply safeguards to

eliminate or reduce them to an acceptable level in aggregate. This is consistent with the Australian Code.

- NZ R410.3 and NZ R905.3.1 emphasise that an assurance practitioner shall end or decline an engagement where the total fees from the client represent a large proportion of the total fees of the firm and safeguards have not eliminated or reduced the threats to an acceptable level.
- NZ R523.3 specifically prohibits a firm from providing audit services to an entity if the partner or employee of the firm serves as an officer or director, liquidator or receiver in respect of the property of the client or in a similar role.
- For the purposes of the International Code and the Australian Code of Ethics for Professional Accountants, public interest entities (PIE) include: a listed entity, an entity defined by regulation or legislation as a public interest entity or an entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

The Australian Code of Ethics for Professional Accountants also requires firms to determine whether to treat additional entities as public interest entities and lists entities in Australia which will generally be considered to be public interest entities.

For the purposes of PES 1, public interest entities include any entity that meets the Tier 1 criteria in accordance with XRB A1<sup>6</sup> and is not eligible to report in accordance with the accounting requirements of another tier.

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<sup>6</sup> XRB A1 *Application of the Accounting Standards Framework*.