

Other Revisions to the Code Relating to Sustainability Assurance and Reporting

Exposure Draft

Submissions close
10 October 2025

A decorative graphic consisting of four parallel, slanted rectangular bars in shades of green, grey, blue, and orange.

July 2025

A decorative graphic featuring three stylized, circular, sunburst-like patterns composed of numerous small white dots connected by thin lines, arranged in a triangular formation on the right side of the page.

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COMMENCEMENT AND APPLICATION

When standard takes effect (Section 27 Financial Reporting Act 2013)

1. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

2. The accounting periods in relation to which this standard commences to apply are:
 - for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.
 - for any other auditor, assurance practitioner or firm, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

3. In paragraph 2:

early adopter means an auditor, assurance practitioner or firm that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

- that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- for which the early adopter:
 - first applies this standard for an audit engagement or an assurance engagement; and
 - discloses in the auditor's report or the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

¹ The standard was published on [Date] and takes effect on [Date].

CONSEQUENTIAL AND CONFORMING AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

Strike through and underlines show changes to extant PES 1.

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

SECTION 100

COMPLYING WITH THE CODE

(....)

Breaches of the Code

R100.8 Paragraphs R400.80 to R400.89, 405.22 A1 to R405.29, ~~and~~ R900.50 to R900.55, R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 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 120

THE CONCEPTUAL FRAMEWORK

(....)

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 Engagements, and Review Engagements and Sustainability Assurance Engagements Addressed in Part 5; and-*

(d) Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)*.

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.

(....)

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

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 or sustainability information; 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 or sustainability information, 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.
- Protection of human rights.
- Labour conditions and rights of employees.
- Consumer rights.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements or sustainability information. 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.

(....)

Responsibilities of Senior Assurance practitioners

(....)

Addressing the Matter

(....)

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 and/or sustainability assurance practitioner performing a sustainability assurance engagement that is within the scope of the International Independence

Standards (New Zealand) in Part 5, 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 or the sustainability assurance practitioner to perform the sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in Part 5.

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.

(....)

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 Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5*, Sections 900 to 999, which applies to assurance practitioners when performing assurance engagements other than audit engagements, or review engagements, or sustainability assurance engagements that are within the scope of the *International Independence Standards (New Zealand)* in Part 5.
 - *Part 5 – International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)*, Sections 5100 to 5600, which applies to assurance practitioners when performing sustainability assurance engagements.
- 300.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.

(....)

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 or a sustainability assurance client for whom the assurance practitioner performs a sustainability assurance engagement within the scope of the International Independence Standards (New Zealand) in Part 5, and whether ~~the audit that~~ client is a public interest entity;
 - (b) An assurance client that is not an audit client or for whom the assurance practitioner does not perform a sustainability assurance engagement within the scope of the International Independence Standards (New Zealand) in Part 5; or
 - (c) A client to whom non-assurance services are provided ~~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.

(....)

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 or sustainability information; 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 or sustainability information, 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.
- Protection of human rights.
- Labour conditions and rights of employees.
- Consumer rights.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements or sustainability information. 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 jurisdictions, 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.

(....)

Audits and Reviews of Financial Statements

(....)

360.18 A1 The purpose of the communication is to enable those responsible for audit or review work at the components, legal entities or business units 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 audit work at the components, legal entities or business units.

Communicating the Matter to the Client's Sustainability Assurance Practitioner

R360.18a Unless prohibited from doing so by law or regulation, the assurance practitioner shall communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in Part 5, when the client is also:

(a) A sustainability assurance client of the firm; or

(b) A group component of a sustainability assurance client of the firm.

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 engagement leader responsible for the sustainability assurance engagement.

R360.18b The assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in Part 5, when the client is:

(a) Also a sustainability assurance client, or a group component of a sustainability assurance client, of a 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 engagement leader responsible for the sustainability assurance engagement; or

(b) Not a sustainability assurance client, or a group component of a sustainability assurance client, of the firm or a network firm.

Relevant Factors to Consider

360.18b A1 Factors relevant to considering the communication in accordance with paragraph R360.18b 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 management or those charged with governance have already informed the client's sustainability assurance practitioner(s) about the matter.

Purpose of Communication

360.18b A2 In the circumstances addressed in paragraphs R360.18a and R360.18b, the purpose of the communication is to enable:

- (a) The engagement leader 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 Part 5; and
- (b) The engagement partner and the sustainability assurance practitioner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section and Section 5360, respectively.

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.

(....)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

(....)

Assurance Engagements other than Audit and Review Engagements

400.17 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 Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5.*
- *Part 5 – International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)*

(....)

Network Firms

(....)

R400.54 If a firm or a network sells a ~~component part~~ of its practice, and ~~the component that part~~ continues to use ~~all or part of~~ wholly or partly 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 ~~part component~~ of a practice might provide that, for a limited period of time, ~~that part the sold component~~ can continue to use wholly all or partly 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.

(...)

SECTION 410

FEES

(....)

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

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

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

410.11 A2a Where a firm or a network firm provides a sustainability assurance engagement addressed in the International Independence Standards (New Zealand) in Part 5, the fee for that sustainability assurance engagement does not impact the level of the self-interest threat or intimidation threat created by the proportion of fees for services other than audit to the audit fee.

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

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

(...)

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, or a combination of audit and sustainability assurance engagements for the same client, 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

540.3 A1 References in this Section to key sustainability assurance leader, sustainability assurance team and sustainability assurance engagement are in the context of sustainability assurance engagements within the scope of the International Independence Standards (New Zealand) in Part 5.

All Audit Clients

540.43 A1 Although an understanding of an audit 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 or sustainability assurance team member with:

- (a) The audit client and its operations;
- (b) The audit client's senior management; or

- (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

540.3~~4~~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.

540.4~~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 for the audit engagement or sustainability assurance engagement, 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 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.

540.4~~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.

540.4~~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 engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time would be rotating the individual off the audit team.

540.4~~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 team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.

- Performing regular independent internal or external quality reviews of the engagement.

R540.54 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit 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 engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the audit 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 R540.75 to R540.234 also apply.

R540.6 Where an individual is a member of both the audit team and the sustainability assurance team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the audit team and the sustainability assurance team, the firm shall, in addition to complying with paragraph R540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance 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 R540.7 to R540.23 also apply.

Audit Clients that are Public Interest Entities

R540.75 Subject to paragraphs R540.97 to R540.119, in respect of an audit 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 (the “time-on” period):

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

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.134 to R540.2149.

R540.86 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 R540.75(a) to (de) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.134 to R540.153 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.86 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 partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.175.

- An individual who served as engagement partner for two years for the audit of the sustainability assurance client's financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R540.18.

R540.97 As an exception to paragraph R540.75, key audit partners whose continuity is especially important to audit 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 partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.97 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.

R540.108 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 or a key sustainability assurance leader 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 or a key sustainability assurance leader 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 the capacity of a key audit partner before rotating off the audit engagement is seven years less the number of years already served. As an exception to paragraph R540.75, if the individual has served the audit client as a key audit partner or a key sustainability assurance leader 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 the capacity of a key audit partner with the concurrence of those charged with governance for a maximum of two additional years before rotating off the audit engagement.

R540.119 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 R540.75, 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

R540.120 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 or the sustainability assurance engagement for the same client prior to the individual becoming a key audit partner.

540.120 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

R540.131 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

- R540.142** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- R540.153** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.134 and R540.142 for seven cumulative years, the cooling-off period shall be two consecutive years.
- 540.164 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by Professional and Ethical Standard 4 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner or key sustainability assurance leader roles

- R540.175** If the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the engagement partner or engagement leader for four or more cumulative years, the cooling-off period shall be five consecutive years.
- R540.186** Subject to paragraph R540.197(a), if the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the key audit partner or key sustainability assurance leader responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.
- R540.197** If an individual has acted in a combination of engagement partner, engagement leader and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:
- (a) As an exception to paragraph R540.186, be five consecutive years where the individual has been the engagement partner or engagement leader for three or more years; or
 - (b) Be three consecutive years in the case of any other combination.
- R540.2018** If the individual acted in any combination of key audit partner or key sustainability assurance leader roles other than those addressed in paragraphs R540.175 to R540.197, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

- R540.2119** In determining the number of years that an individual has been a key audit partner or a key sustainability assurance leader as set out in paragraph R540.75, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on ~~that the audit engagement~~ or a key sustainability assurance leader on the sustainability assurance engagement for the same client at a prior firm.

[Paragraph R540.220 Intentionally left blank]

Restrictions on Activities During the Cooling-off Period

- R540.234** For the duration of the relevant cooling-off period, the individual shall not:
- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement or the sustainability assurance engagement;
 - (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement or sustainability assurance 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 engagement or sustainability assurance engagement);

- (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 or sustainability assurance engagement.

540.234 A1 The provisions of paragraph R540.234 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).

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, AND REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, AND REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) IN PART 5

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements, ~~and review engagements, and sustainability assurance engagements within the scope of the International Independence Standards (New Zealand) in Part 5.~~ 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 non-financial information, ~~for example, environmental, social and governance disclosures, including greenhouse gas statements other than assurance on sustainability information within the scope of the International Independence Standards (New Zealand) in Part 5.~~
- An audit of specific elements, accounts or items of a financial statement.
- A sustainability assurance engagement that is not within the scope of the International Independence Standards (New Zealand) in Part 5, for example:
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a framework designed to meet the information needs of specified users.
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with entity-developed criteria.
 - A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

(...)

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.

Sustainability Assurance Engagements Addressed in Part 5

900.11 Part 5 sets out independence standards for certain sustainability assurance engagements. If a firm performs both a sustainability assurance engagement within the scope of the International Independence Standards (New Zealand) in Part 5 and another assurance engagement within the scope of this Part for the same client, the requirements in Part 5 continue to apply to the firm, a network firm and the sustainability assurance team members.

SUSTAINABILITY REPORTING-RELATED REVISIONS TO PARTS 1 TO 3 OF PROFESSIONAL AND ETHICAL STANDARD 1 INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

Strike through and underlines show changes to extant PES 1.

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, non-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 (including independence) 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 accountants might encounter, whether in business or in public practice. (....)

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 non-financial other information, including sustainability 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.

(....)

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.

- An assurance practitioner determining the appropriate methodology to calculate emission reductions after performing the feasibility study supporting a capital project to reduce emissions.

(c) Advocacy Threats

- An assurance practitioner having the opportunity to manipulate information in a prospectus, including in relation to a sustainability or sustainability-linked bond, in order to obtain favourable financing.

(d) Familiarity Threats

- An assurance practitioner being responsible for the financial or non-financial, including sustainability, reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial or non-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 or a sustainability reporting principle.
 - The determination of measurement methods, metrics, targets, estimation criteria or assumptions for sustainability information.
 - The way in which financial or non-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 or a sustainability reporting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).

- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or employing organisation.

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 over financial and non-financial, including sustainability, information and their interconnection.
 - 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 The assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organisation and its operating environment. For example:
- Level of corporate oversight and internal controls over the technology.
 - Assessments of the quality and functionality of technology that are undertaken by a third-party.
 - Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

(....)

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, another committee tasked with oversight of sustainability information, 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

(....)

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 or non-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.

(....)

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 activities and 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.
- Sustainability information, including information on the organisation's business model, services, products, or other relevant activities, provided to the sustainability assurance practitioner.
- Risk and impact 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 collecting, recording, measuring, 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 others 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 and impacts of business transactions or activities; and
 - (iii) Collect, Classify, and record or measure 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 preparing or presenting the information in a manner that is intended to mislead others is deliberately giving a false impression in sustainability information about how well an organisation or an investment is aligned with or achieving its sustainability goals, through practices such as:
- Omitting relevant information to misrepresent the nature and impacts of business activities.
 - Including false information.
 - Inappropriately applying or reporting metrics.
 - Placing excessive emphasis on certain information while understating other information.
- 220.4 A24 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.
- 220.4 A3 An example of failing to exercise professional judgement to represent the facts accurately and completely in all material respects is placing undue weight on information that corroborates an organisation's achievement of its targets or insufficient weight on other information which contradicts such achievement.
- 220.4 A4 An example of placing undue reliance on an organisation is using the data provided by a large supplier within the entity's value chain to prepare or present the entity's sustainability information, without considering the source, relevance and sufficiency of that supplier's data.

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.

- Selecting or changing measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework in order to misrepresent information.
- Selecting, omitting or obscuring opportunities, risks or impacts as part of a materiality assessment in order to misrepresent sustainability information.
- 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 timing of disclosures of sustainability information to achieve a more favourable presentation or outcome 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, sustainability or operating risk in order to mislead.
- Preparing forward-looking information by relying on assumptions that are unrealistic or inconsistent with management's decisions or objectives 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, or sustainability information, 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.

Using the Work of Others

[Placeholder – The new and revised provisions under the heading “Using the Work of Others” are included in the Exposure Draft addressing Using the Work of an External Expert]

(....)

Using the Output of Technology

R220.8 An assurance practitioner who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when an assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the assurance practitioner has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.

- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 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.

220.9 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.

220.9 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 or sustainability assurance practitioner 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.

R220.10 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.

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

Documentation

- 220.11 A1 The assurance practitioner is encouraged to document:
- The facts.
 - The accounting or reporting principles or other relevant professional standards involved.
 - The communications and parties with whom matters were discussed.
 - The assurance practitioner's analysis, assumptions, courses of action considered, and judgements and decisions made in preparing or presenting the information.
 - How the assurance practitioner attempted to address the matter(s).

Other Considerations

- 220.12 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 or non-financial, including sustainability, reporting and decision making, the requirements and application material set out in Section 240 apply.
- 220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.
- 220.12 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.
- 220.12 A4 When an assurance practitioner is considering using the work of others or the output of technology, a consideration is whether the assurance practitioner is in a position within the employing organisation to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING

(....)

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 or non-financial, including sustainability, 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 or incentive based on financial or non-financial performance goals and the value of that bonus or incentive 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 financial or non-financial 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 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 or non-financial results to meet investor, analyst, ~~or~~ lender or other stakeholder expectations.
 - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
 - Pressure to misrepresent, through labelling or otherwise, how certain programs, projects or products are aligned to or achieving sustainability goals.
 - Pressure from colleagues to misstate income, expenditure, ~~or~~ rates of return or sustainability information 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.
 - Pressure from superiors to prepare sustainability information with insufficient data or deficiencies in the quality and accuracy of data available.

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 financial or non-financial performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial or Non-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.
 - Pressure to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations.

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

- Pressure related to level of fees:
 - Pressure exerted by an assurance practitioner on another assurance practitioner to provide assurance services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services 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.

See also Section 330, *Fees and Other Types of Remuneration*

- 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 or the sustainability assurance practitioner.
 - 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.

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

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK

(....)

Requirements and Application Material

General

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

R300.5 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 or non-financial, including sustainability, 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 statements², 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.

300.5 A2 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 firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, assurance practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner or the firm has a professional or business

² See Section 601, paragraphs R601.5 and R601.6

relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

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.
- 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.
- An assurance practitioner having incentives linked to the outcome of a professional service to prepare sustainability information.

(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 contributed to the preparation~~ed~~ of 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.
- An assurance practitioner promoting a particular sustainability-related initiative, product or service 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.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(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 or sustainability-related analysis.
- An assurance practitioner having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).

- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or firm.

Evaluating Threats

(....)

The Client and its Operating Environment

(....)

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.

300.7 A4a When preparing or presenting sustainability information, the assurance practitioner's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information the assurance practitioner is preparing or presenting comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

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 work environment 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 any 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.

(....)

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, another committee tasked with oversight of sustainability information, 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

(....)

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.
- Preparing or presenting sustainability information for a client while also being in a leadership position at a sustainability advocacy group that publicly challenges the client's sustainability targets or practices.

Conflict Identification

General

(....)

SECTION 320

PROFESSIONAL APPOINTMENTS

(....)

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 or non-financial, including sustainability, 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 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 quantitative and qualitative characteristics of the client's value chain, where applicable;
 - 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.
 - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as Professional and Ethical Standard 3, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
 - The level of fees and the extent to which they have regard to the resources required, taking into account the assurance practitioner's commercial and market priorities.

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.

(....)

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 or sustainability materiality assessments.

Using the Work of an Expert

[Placeholder – The new and revised provisions under the heading “Using the Work of an Expert” are included in the Exposure Draft addressing Using the Work of an External Expert]

(....)

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

(....)

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 or metrics for determining the fee.
 - Disclosure to intended users of the work performed by the assurance practitioner and the basis of remuneration.
 - Quality management 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.

(....)

AMENDMENTS TO THE GLOSSARY

Strike through and underlines show changes to extant PES 1.

Acceptable level	A level at which an assurance practitioner <u>or sustainability assurance practitioner</u> using the reasonable and informed third party test would likely conclude that the assurance practitioner <u>or sustainability assurance practitioner</u> complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by assurance practitioners <u>or sustainability assurance practitioners</u> with a view to procuring assurance business.
<u>Another Practitioner</u>	<p>A firm, <u>other than the sustainability assurance practitioner's firm, that performs work that the sustainability assurance practitioner intends to use for the purposes of the sustainability assurance engagement, and the sustainability assurance practitioner is unable to be sufficiently and appropriately involved in that work.</u></p> <p><u>An individual from another practitioner who performs the work is neither a member of the engagement team nor a practitioner's expert.</u></p>
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 <u>or a sustainability assurance practitioner.</u></i></p> <p><i>This term is described in paragraphs <u>300.8 A4 and 5300.8 A4.</u></i></p>
Assurance client	<p>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).</p> <p><u>In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "sustainability assurance client."</u></p>
Assurance engagement	<p>An engagement in which an assurance practitioner 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.</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 Standards on Assurance Engagements (SAEs) <u>and International Standards on Sustainability Assurance (New</u></p>

Zealand) (ISSAs (NZ)) apply.)

In Part 4B, the term "assurance engagement" addresses assurance engagements other than audit engagements, ~~or~~ review engagements, or sustainability assurance engagements addressed in Part 5.

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
 - (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;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance team."

- Attestation engagement
- An assurance engagement in which a party other than the assurance practitioner or the sustainability assurance practitioner, as applicable, measures or evaluates the underlying subject matter against the criteria.
- A party other than the assurance practitioner or the sustainability 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 or the sustainability assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's or the sustainability assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement.
- The assurance practitioner's or the sustainability assurance practitioner's conclusion may be phrased in terms of:
- (i) The underlying subject matter and the applicable criteria;
 - (ii) The subject matter information and the applicable criteria; or
 - (iii) A statement made by the appropriate party(ies).

- Component (Audit and Review Engagements)
- For a group audit, Aan entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in thea group audit.

- Component
- For a group sustainability assurance engagement, an entity, business unit,

<u>(Sustainability Assurance Engagements Addressed in Part 5)</u>	<p><u>function or business activity, or some combination thereof, within the reporting boundary, determined by the group sustainability assurance firm for purposes of planning and performing the group sustainability assurance engagement. A component is either a group component or a value chain component.</u></p> <p><i><u>Group component – in the context of a sustainability assurance engagement in Part 5, see separate definition.</u></i></p> <p><i><u>Value chain component – in the context of a sustainability assurance engagement in Part 5, see separate definition.</u></i></p>
<u>Component practitioner</u>	<p><u>A firm that performs assurance work related to a component for purposes of the group sustainability assurance engagement, and the group sustainability assurance firm is able to be sufficiently and appropriately involved in that work. The individuals from a component practitioner who perform the assurance work are members of the engagement team.</u></p>
Conceptual framework	<p><i><u>This term is described in Sections 120 and 5120.</u></i></p>
Cooling-off period	<p><i><u>This term is described in paragraphs R540.75 and R5540.7 for the purposes of paragraphs R540.134 to R540.214 and R5540.13 to R5540.21.</u></i></p>
Criteria	<p><u>In an assurance engagement, including a sustainability assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.</u></p>
<u>Engagement leader</u>	<p><u>An individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance 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 leader" should be read as referring to its public sector equivalent where relevant.</u></p> <p><i><u>In the case of audit and review engagements, see the definition of "engagement partner."</u></i></p>
Engagement partner	<p>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.</p> <p><i><u>In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "engagement leader."</u></i></p>
<u>Engagement period</u> <u>(Sustainability Assurance)</u>	<p><u>The engagement period starts when the sustainability assurance team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the</u></p>

Engagements Addressed in Part 5) notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

Engagement period (Assurance Engagements Other than Audit

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.

Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5)

Engagement quality reviewer

A leader or partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Engagement team

All leaders or partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.

In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.

ISA (NZ) 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA (NZ) 620 defines an auditor's expert as an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA (NZ) 620 deals with the auditor's responsibilities relating to the work of such experts.

ISA (NZ) 610 (Revised 2013) deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.

In Part 5, the term "engagement team" refers to individuals performing assurance procedures on the sustainability assurance engagement. This excludes individuals whose work the sustainability assurance practitioner is not able to be sufficiently and appropriately involved in (e.g., individuals from

“another practitioner”). This term is further described in paragraph 5400.10a in Part 5.

Existing practitioner An individual or an entity currently holding an appointment to perform a sustainability assurance engagement or carrying out other professional services for a sustainability assurance client.

Firm

- (a) A sole practitioner, partnership or corporation undertaking assurance engagements;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of assurance practitioners and firms for compliance with Parts 4A and 4B, respectively.

Paragraph 5400.4 explains how the word “firm” is used to address the responsibility of individual sustainability assurance practitioners and firms for compliance with Part 5.

Fundamental principles *This term is described in paragraphs 110.1 A1 and 5110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:*

<i>Integrity</i>	<i>R111.1 and R5111.1</i>
<i>Objectivity</i>	<i>R112.1 and R5112.1</i>
<i>Professional competence and due care</i>	<i>R113.1 and R5113.1</i>
<i>Confidentiality</i>	<i>R114.1 to R114.3 and R5114.1 to R5114.3</i>
<i>Professional behaviour</i>	<i>R115.1 and R5115.1</i>

General purpose framework A reporting framework designed to meet the common information needs of a wide range of users. The framework may be a fair presentation framework or a compliance framework.

The term “fair presentation framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the reported information, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the reported information. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above.

In Part 5, general purpose framework refers to general purpose sustainability reporting frameworks.

Group A reporting entity for which group financial statements or group sustainability information ~~are~~ is prepared.

Group component (for a sustainability assurance engagement) A group component is a component required to be included in the reporting entity’s group financial statements.

If the group component is:

(a) A legal entity, it is the entity and any related entities within the reporting boundary over which the entity has direct or indirect control; or

(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Group engagement leader The engagement leader who is responsible for the group sustainability assurance engagement.

Group sustainability assurance client The entity on whose group sustainability information the group sustainability assurance firm conducts a sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other group components at which assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other group components at which assurance work is performed.

See also paragraph R5400.27.

Group sustainability assurance engagement An assurance engagement on group sustainability information.

Group sustainability assurance firm The firm that expresses the opinion on the group sustainability information.

Group sustainability assurance team (a) All members of the engagement team for the group sustainability assurance engagement, including individuals within, or engaged by, component practitioners who perform assurance procedures related to components for purposes of the group sustainability assurance engagement;

- (b) All others within, or engaged by, the group sustainability assurance firm who can directly influence the outcome of the group sustainability assurance engagement, including:
- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent;
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group sustainability assurance engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;
- (c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and
- (d) Any other individuals within a component practitioner outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.

Group sustainability information Sustainability information that includes the sustainability information of more than one entity or business unit.

Independence Independence comprises:

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

As set out in paragraphs 400.5, ~~and~~ 900.4 and 5400.5, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A, ~~and~~ 4B and 5, as applicable.

Inducement 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, or between sustainability assurance practitioners and existing or prospective sustainability assurance 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.*

Key sustainability assurance leader

The engagement leader, the individual responsible for the engagement quality review, and other leaders, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, "other leaders" might include, for example, engagement leaders for certain group components in a group sustainability assurance engagement such as significant subsidiaries or divisions.

A sustainability assurance leader performing assurance work at a value chain component is not, as a result of that role, a key sustainability assurance leader for purposes of the group sustainability assurance engagement.

Leader

Any individual with authority to bind a firm with respect to the performance of a professional service.

This term is used in the context of sustainability assurance engagements in Part 5.

Network firm

A firm or entity that belongs to a network.

For further information, see paragraphs 400.50 A1 to 400.54 A1 in Part 4A and paragraphs 5400.50 A1 to 5400.54 A1 in Part 5.

Non-compliance with laws and regulations

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:

(Sustainability Assurance Practitioners)

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

This term is described in paragraph 5360.5 A1.

<u>Predecessor practitioner</u>	<u>An individual or an entity who most recently held an appointment to perform a sustainability assurance engagement or carried out other professional services for a sustainability assurance client, where there is no existing practitioner.</u>
Professional activity	An activity requiring professional accountancy or related skills undertaken by an assurance practitioner <u>or a sustainability assurance practitioner</u> , including accounting, auditing, <u>sustainability reporting or assurance</u> , tax, management -consulting, and financial management.
Professional judgement	<i>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.</i> <u><i>This term is described in paragraphs 120.5 A4 and 5120.5 A4.</i></u>
<u>Proposed practitioner</u>	<u>A sustainability assurance practitioner who is considering accepting an appointment to perform a sustainability assurance engagement or carry out other professional services for a prospective sustainability assurance client (or in some cases, an existing sustainability assurance client)</u>
Reasonable and informed third party Reasonable and informed third party test	<i>The reasonable and informed third party test is a consideration by the assurance practitioner <u>or the sustainability assurance practitioner</u> 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 <u>or the sustainability assurance practitioner</u> 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 assurance practitioner <u>or a sustainability assurance practitioner</u>, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's <u>or sustainability assurance practitioner's</u> conclusions in an impartial manner.</i> <u><i>These terms are described in paragraphs 120.5 A9 and 5120.5 A9.</i></u>
<u>Reporting boundary</u>	<u>Activities, operations, relationships or resources to be included in the entity's sustainability information.</u>
Safeguards	<i>Safeguards are actions, individually or in combination, that the assurance practitioner <u>or the sustainability assurance practitioner</u> takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i> <u><i>This term is described in paragraphs 120.10 A2 and 5120.10 A2.</i></u>
Substantial harm	<u><i>This term is described in paragraphs 260.5 A3, and 360.5 A3 and 5360.5 A3.</i></u>

Sustainability assurance client An entity in respect of which a firm conducts a sustainability assurance engagement. When the client is a publicly traded entity, sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph R5400.27.)

Sustainability assurance engagement An engagement in which a sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information.

A sustainability assurance engagement can be either a:

- Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the underlying subject matter against applicable criteria; or
- Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgement, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the sustainability information to a degree that is clearly more than inconsequential.

Sustainability assurance practitioner The individual(s) conducting a sustainability assurance engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm).

Sustainability assurance team (a) All members of the engagement team for the sustainability assurance engagement;
(b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:
(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement leader in connection with the performance of the

sustainability assurance engagement, including those at all successively senior levels above the engagement leader through to the individual who is the firm's Chief Executive;

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.

Sustainability information

Information about sustainability matters.

Sustainability matters are environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.

Sustainability information includes information that may be:

- Expressed in financial or non-financial terms.
- Historical or forward-looking.
- Prepared for internal purposes or for mandatory or voluntary disclosure.
- Obtained from an entity or its value chain.
- Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.
- Described in an entity's governance structure, policies, plans, goals, commitments or representations.
- About the effects (including risks and opportunities) of environmental, social, governance or other sustainability-related matters on an entity's business model, activities, services or products.
- About the effects of an entity's business model, activities, services or products on the environment, society or economy.

Those charged with governance

The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process or the sustainability reporting process, as applicable. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats

This term is described in paragraphs 120.6 A3 and 5120.6 A3 and includes the following categories:

Self-interest

120.6 A3(a) and 5120.6 A3(a)

<i>Self-review</i>	<i>120.6 A3(b) and 5120.6 A3(b)</i>
<i>Advocacy</i>	<i>120.6 A3(c) and 5120.6 A3(c)</i>
<i>Familiarity</i>	<i>120.6 A3(d) and 5120.6 A3(d)</i>
<i>Intimidation</i>	<i>120.6 A3(e) and 5120.6 A3(e)</i>

Time-on period *This term is described in paragraphs R540.75 in Part 4A and R5540.7 in Part 5*

Value Chain The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.
The value chain might include, for example, certain sustainability assurance client's customers and suppliers for sustainability reporting purposes.

Value chain component (for a sustainability assurance engagement) A value chain component is a component within the reporting entity's value chain that is not included in the group financial statements.
If the value chain component is:
(a) A legal entity, it is the entity; or
(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.