



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: *Quality Management-related Conforming Amendments and Other Contextual Amendments to the Code*

This Standard was issued on 18 August 2022 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 15 September 2022.

The amendments in this Standard are effective on 15 December 2022.

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

This Standard has been issued as a result of changes to the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

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**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1:
QUALITY MANAGEMENT-RELATED CONFORMING AMENDMENTS
AND OTHER CONTEXTUAL AMENDMENTS TO THE CODE**

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I. Introduction

This Standard includes amendments to Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

The NZAuASB issued its suite of quality management standards, based on the international quality management standards issued by the International Auditing and Assurance Standards Board (IAASB), in July 2021. This suite of standards comprises:

- Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Professional and Ethical Standard 4 *Engagement Quality Reviews*
- International Standard on Auditing (New Zealand) (ISA (NZ)) 220 (Revised) *Quality Management for an Audit of Financial Statements*

As a result of the finalisation of the IAASB quality management suite, the International Ethics Standards Board for Accountants (IESBA) considered it necessary to make conforming amendments to the international Code. The IESBA finalised its conforming amendments in April 2022.

It is now necessary to adopt those conforming amendments in New Zealand, amending Professional and Ethical Standard 1 to replace certain concepts and terminology, as follows

- References to Professional and Ethical Standard (PES) 3 (Amended) are replaced with reference to the new standard, as well as certain concepts and terminology in PES 3 (Amended)
- Revisions to Professional and Ethical Standard 1: *Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers* also refers to concepts and terminology in Professional and Ethical Standard 4 which need to be reflected in the Glossary to the Code.

In addition, when finalising Amendments to Professional and Ethical Standard 1: *Revisions to the Fee-Related Provisions of the Code*, the NZAuASB agreed to adopt the IESBA convention in Part 4A of the Code to use the terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” to apply equally to review, review team, review engagement, review client and review engagement report. As a result of this decision, certain NZ contextual changes have been reversed out of Professional and Ethical Standard 1.

New text is underlined and deleted text is shown using strikethrough.

II. QUALITY MANAGEMENT-RELATED CONFORMING AMENDMENTS and OTHER CONTEXTUAL AMENDMENTS TO THE CODE

New text is underlined and deleted text is struck through.

Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to the compiled Professional and Ethical Standard 1.

**SECTION 120
THE CONCEPTUAL FRAMEWORK**

...

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

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, ~~the existence of a system of quality management system designed, and implemented~~ and operated by a firm in accordance with the quality management standards issued by the New Zealand Auditing and Assurance Standards Board is an example of such conditions, policies and procedures.

**SECTION 300
APPLYING THE CONCEPTUAL FRAMEWORK**

...

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 systems and procedures within the assurance practitioner’s firm and its operating environment. For example:

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

- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including 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.

SECTION 320

PROFESSIONAL APPOINTMENTS

Client and Engagement Acceptance

General

...

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- 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 existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~
- 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.

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

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

- 400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.
- 400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.
- NZ 400.2.1 This Part also applies to engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.
- 400.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.
- 400.4 Professional and Ethical Standard 3¹ (~~Amended~~), ~~Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements~~, requires a firm to ~~establish policies and procedures design, ed implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, -to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject.(including network firm personnel), maintain independence where required by relevant ethics requirements.~~ International Standards on Auditing (New Zealand), International Standards on Review Engagements (New Zealand) and New Zealand Standards on Review Engagements establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm~~Firms~~ assigns

¹ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

operational responsibility for compliance with independence requirements for a particular action to an individual(s) or a group of individuals (such as an audit team), in accordance with Professional and Ethical Standard 3 ~~(Amended)~~. In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner's activities, interests or relationships.

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

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

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

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

Public Interest Entities

- 400.8 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:
- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
 - Size.

- Number of employees.

Reports that Include a Restriction on Use and Distribution

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

Assurance Engagements other than Audit and Review Engagements

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

Requirements and Application Material

General

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

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

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

...

Related Entities

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

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

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

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

400.30 A1 The engagement period starts when the audit ~~or review~~ team begins to perform the audit ~~or review~~. The engagement period ends when the audit report ~~or review report~~ is issued. When the engagement is of a recurring nature, it ends at the later of the notification by

either party that the professional relationship has ended or the issuance of the final audit ~~or review~~ report.

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

- (a) Financial or business relationships with the audit ~~or review~~ client during or after the period covered by the financial statements but before accepting the audit ~~or review~~ engagement; or
- (b) Previous services provided to the audit ~~or review~~ client by the firm or a network firm in prior financial statement periods.

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

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion.

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

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

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited or reviewed by another firm.

...

Network Firms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

400.53 A8 Professional resources include:

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

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

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

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

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

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

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

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

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

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

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

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

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

- (a) Evaluate the threat that is created by the interest or relationship; and

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

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

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

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

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

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

400.73 A1 Examples of such transitional measures include:

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

R400.74 The firm might have completed a significant amount of work on the audit ~~or review~~ prior to the effective date of the merger or acquisition and might be able to complete the remaining audit ~~or review~~ procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit

~~or review~~ while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(a) to (c); and
- (c) Ceases to be the assurance practitioner no later than the date that the audit report ~~or review report~~ is issued.

If Objectivity Remains Compromised

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

Documentation

R400.76 The firm shall document:

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

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

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

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

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

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

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

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

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

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

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

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

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

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

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

Communication of Breaches to Those Charged with Governance

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

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

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:

- (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
- (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

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

Breaches Before the Previous Audit Report Was Issued

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

R400.87 The firm shall also:

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

Documentation

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

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

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

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

SECTION 410

FEES

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Requirements and Application Material General

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Fees Paid by an Audit Client

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410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly ~~a system of quality~~ ~~the existence of a quality management system~~ designed, ~~and implemented~~ and operated by the firm in accordance with quality management standards issued by the New Zealand Auditing and Assurance Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

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SECTION 411

COMPENSATION AND EVALUATION POLICIES

Introduction

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

Requirements and Application Material

General

- 411.3 A1 When an audit ~~or review~~ team member for a particular audit ~~or review~~ client is evaluated on or compensated for selling non-assurance services to that audit ~~or review~~ client, the level of the self-interest threat will depend on:
- What proportion of the compensation or evaluation is based on the sale of such services;
 - The role of the individual on the audit ~~or review~~ team; and
 - Whether the sale of such non-assurance services influences promotion decisions.
- 411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.

- Removing that individual from the audit ~~or review~~ team.

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

R411.4 A firm shall not evaluate or compensate a key audit ~~or key assurance~~ partner based on that partner's success in selling non-assurance services to the partner's audit ~~or review~~ client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

SECTION 420

GIFTS AND HOSPITALITY

Introduction

420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

420.2 Accepting gifts and hospitality from an audit ~~or review~~ client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

R420.3 A firm, network firm or an audit ~~or review~~ team member shall not accept gifts and hospitality from an audit ~~or review~~ client, unless the value is trivial and inconsequential.

420.3 A1 Where a firm, network firm or audit ~~or review~~ team member is offering or accepting an inducement to or from an audit ~~or review~~ client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.

420.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm, network firm or audit ~~or review~~ team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

SECTION 430

ACTUAL OR THREATENED LITIGATION

Introduction

430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

430.2 When litigation with an audit ~~or review~~ client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

430.3 A1 The relationship between client management and audit ~~or review~~ team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an audit ~~or review~~ client and the firm, a network firm or an audit ~~or review~~ team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

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

- The materiality of the litigation.
- Whether the litigation relates to a prior audit ~~or review~~ engagement.

430.3 A3 If the litigation involves an audit ~~or review~~ team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the audit ~~or review~~ team.

430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 510

FINANCIAL INTERESTS

Introduction

510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

510.2 Holding a financial interest in an audit ~~or review~~ client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit ~~or review~~-client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

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

R510.4 Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit ~~or review~~-client shall not be held by:

- (a) The firm or a network firm;
- (b) An audit ~~or review~~-team member, or any of that individual’s immediate family;
- (c) Any other partner in the office in which an engagement partner practices in connection with the audit ~~or review~~-engagement, or any of that other partner’s immediate family; or
- (d) Any other partner or managerial employee who provides non-~~assurance~~-audit services to the audit ~~or review~~-client, except for any whose involvement is minimal, or any of that individual’s immediate family.

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

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

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

Financial Interests in an Entity Controlling an Audit ~~or Review~~ Client

R510.6 When an entity has a controlling interest in an audit ~~or review~~-client and the client is material to the entity, neither the firm, nor a network firm, nor an audit ~~or review~~-team

member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

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

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

Financial Interests in Common with the Audit ~~or Review~~ Client

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

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

Financial Interests Received Unintentionally

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

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

Financial Interests – Other Circumstances

Immediate Family

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

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

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

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

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

Close Family

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

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

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

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

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

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

Other Individuals

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

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

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

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

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

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

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

Retirement Benefit Plan of a Firm or Network Firm

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

SECTION 511

LOANS AND GUARANTEES

Introduction

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

Requirements and Application Material

General

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

Loans and Guarantees with an Audit ~~or Review~~ Client

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

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

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

Deposits or Brokerage Accounts

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

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

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

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

SECTION 520

BUSINESS RELATIONSHIPS

Introduction

520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

520.2 A close business relationship with an audit ~~or review~~-client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.

- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm or a network firm distributes or markets the client's products or services, or the client distributes or markets the firm or a network firm's products or services.

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

R520.4 A firm, a network firm or an audit ~~or review~~ team member shall not have a close business relationship with an audit ~~or review~~ client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit ~~or review~~ team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit ~~or review~~ client or its management and the immediate family of an audit ~~or review~~ team member.

Common Interests in Closely-Held Entities

R520.5 A firm, a network firm, an audit ~~or review~~ team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit ~~or review~~ client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

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

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

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit ~~or review~~ team.

SECTION 521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

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

Requirements and Application Material

General

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

Immediate Family of an Audit Team Member

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

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

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

Close Family of an Audit ~~or Review~~ Team Member

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

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

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

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

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

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

Other Close Relationships of an Audit ~~or Review~~ Team Member

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

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

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

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

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

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

Relationships of Partners and Employees of the Firm

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

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

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

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

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

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

SECTION 522

RECENT SERVICE WITH AN AUDIT ~~OR REVIEW~~ CLIENT

Introduction

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

Requirements and Application Material

Service During Period Covered by the Audit ~~or Review~~ Report

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

Service Prior to Period Covered by the Audit ~~or Review~~ Report

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

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

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

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

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

SECTION 523

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

Introduction

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

Requirements and Application Material

Service as Director or Officer

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

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

Service as Company Secretary

R523.4 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit ~~or review~~ client of the firm, unless:

- (a) This practice is specifically permitted under local law, professional rules or practice;
 - (b) Management makes all relevant decisions; and
 - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit ~~or review~~ client. (More information on providing non-assurance services to an audit client is set out in Section 600, *Provision of Non-assurance Services to an Audit ~~or Review~~ Client*.)

SECTION 524

EMPLOYMENT WITH AN AUDIT ~~OR REVIEW~~ CLIENT

Introduction

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

Requirements and Application Material

All Audit ~~or Review~~ Clients

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

Former Partner or Audit ~~or Review~~ Team Member Restrictions

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

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

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

524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit ~~or review~~ client of the firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

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

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the audit ~~or review~~ plan.
- Assigning to the audit ~~or review~~ team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former audit ~~or review~~ team member.

Audit ~~or Review~~ Team Members Entering Employment with a Client

R524.5 A firm or network firm shall have policies and procedures that require audit ~~or review~~ team members to notify the firm or network firm when entering employment negotiations with an audit ~~or review~~ client.

524.5 A1 A self-interest threat is created when an audit ~~or review~~ team member participates in the audit ~~or review~~ engagement while knowing that the audit ~~or review~~ team member will, or might, join the client at some time in the future.

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

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

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

Key Audit ~~or Key Assurance~~ Partners

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

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

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

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

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

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

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

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

Business Combinations

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

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

SECTION 525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

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

Requirements and Application Material

General

- 525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit ~~or review~~ client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
 - Not including the loaned personnel as an audit ~~or review~~ team member might address a familiarity or advocacy threat.
 - Not giving the loaned personnel audit ~~or review~~ responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit ~~or review~~ client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R525.4** A firm or network firm shall not loan personnel to an audit ~~or review~~ client unless the firm of network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
 - (b) Such personnel will not assume management responsibilities and the audit ~~or review~~ client is responsible for directing and supervising the activities of such personnel;
 - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
 - (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 540

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

Introduction

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

Requirements and Application Material

All Audit Clients

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

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

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

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

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

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

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

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

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

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

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

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

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit ~~or review~~ of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years² (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 ~~or key assurance~~ partner role.

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

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

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

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

...

Cooling-off Period

...

Service in a combination of key audit partner roles

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

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

² Law, regulation or other standards may specify a shorter time-on period.

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

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

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

...

SECTION 800

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

Introduction

800.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits ~~or reviews~~ of special purpose financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an “eligible audit ~~or review~~ engagement.”

Requirements and Application Material

General

R800.3 When a firm intends to issue a report on an audit ~~or review~~ of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
- (b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

...

R800.5 When the firm performs an eligible audit ~~or review~~ engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm

shall not apply these modifications when an audit ~~or review~~ of financial statements is required by law or regulation.

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

Public Interest Entities

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

Related Entities

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

Networks and Network Firms

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

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

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

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

~~review~~-client and others within the firm who can directly influence the outcome of the audit ~~or review~~-engagement.

800.10 A1 Others within a firm who can directly influence the outcome of the audit ~~or review~~ engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit ~~or review~~-engagement partner in connection with the performance of the audit ~~or review~~-engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

R800.11 When the firm performs an eligible audit ~~or review~~-engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit ~~or review~~-client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

R800.12 When the firm performs an eligible audit ~~or review~~-engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit ~~or review~~-client.

Employment with an Audit ~~or Review~~-Client

R800.13 When the firm performs an eligible audit ~~or review~~-engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

Providing Non-Assurance Services

R800.14 If the firm performs an eligible audit ~~or review~~-engagement and provides a non-assurance service to the audit ~~or review~~-client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

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

SECTION 900

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

Introduction

General

900.3 Professional and Ethical Standard 3 ~~(Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, requires a firm to establish policies and procedures~~ requires a firm to design, implement and operate a system of quality management for assurance engagements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject. ~~ed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards.~~ In addition, International Standards on Assurance Engagements (New Zealand), Standards on Assurance Engagements and International Standards on Auditing (New Zealand) establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm ~~Firms~~ assigns operational responsibility for compliance with independence requirements a particular action to an individual(s) or a group of individuals (such as an assurance team) in accordance with Professional and Ethical Standard 3 (Amended). Additionally, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner’s activities, interests or relationships.

GLOSSARY

Engagement quality control -review	An objective evaluation process designed to provide an objective evaluation, on or before the report is issued, of the significant judgements made by the engagement team made and the conclusions it reached in formulating the report thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
<u>Engagement quality reviewer</u>	<u>A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.</u>
Key audit partner	The engagement partner, the individual responsible for the engagement quality control -review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
[NZ] Key assurance partner	The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.
Network	A larger structure: <ul style="list-style-type: none">(a) That is aimed at co-operation; and(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control <u>management</u> policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

III. EFFECTIVE DATE

The amendments in this standard are effective on 15 December 2022.