PROFESSIONAL AND ETHICAL STANDARD 1 (Revised)

Code of Ethics for Assurance Practitioners (PES 1)

Issued January 2013

Effective on 1 January 2014.

This Standard was issued by the New Zealand Auditing and Assurance Standards Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

ISBN 978-1-927174-37-1

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CODE OF ETHICS FOR ASSURANCE PRACTITIONERS

Issued by the New Zealand Auditing and Assurance Standards Board

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NEW ZEALAND PREFACE

Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners* (Code) issued by the NZAuASB is based on Part A and Part B of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) and used with permission of IFAC, as it applies to assurance practitioners. New Zealand additions and definitions are prefixed with NZ in this Code.

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

The independence requirements set out in this Code apply to all entities and all assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements, especially the independence requirements covered in section 290 and section 291. Many of the safeguards discussed as being available, within either the entity or the assurance practice, will not be available to small entities and small firms. Further, the safeguards discussed may not be effective for small firms and no other effective safeguards may be available. For example, involving individuals within the firm who are not members of the assurance team in, for example, providing non-assurance services to an assurance client, may not reduce the threats to independence given the likely closeness of relationships of staff within small firms.

Small entities are unlikely to have the resources or the need to operate detailed corporate governance mechanisms such as audit committees. Small firms may not have the resources or the need to develop and maintain detailed internal policies and procedures to identify and evaluate threats to independence, or the ability to access independent assurance practitioners to review work undertaken. In some cases the costs of the appropriate safeguards will not be significant. In other cases, achieving satisfactory safeguards will not be possible without significant cost.

In the case of a small firm, as applies to all other firms, if the fundamental principles are threatened and no alternative safeguards can be identified, the assurance practitioner or firm shall terminate or decline the engagement.

NEW ZEALAND SCOPE AND APPLICATION

NZ1.1 This Code is operative from 1 January 2014 and supersedes Professional and Ethical Standard (PES) 1 *Ethical Standards for Assurance* and PES 2 *Independence in Assurance Engagements* (issued by the XRB in July 2011). Earlier adoption of this Code is permitted. Transitional provisions relating to public interest entities, partner rotation, non-assurance services, fees – relative size, compensation and evaluation policies apply from the date specified in the respective transitional provisions (refer to page 130).

NZ1.2 This Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. This Code makes reference to the accounting profession to establish a benchmark and is not intended to exclude assurance practitioners that are not part of the accountancy profession. Some professions may have requirements and guidance that differ from those contained in this Code. Assurance practitioners from other professions, including any person or organisation appointed or engaged to perform assurance engagements, need to be aware of these differences and comply with the more stringent requirements and guidance.

NZ1.3 This Code is not intended to detract from responsibilities which may be imposed by law or regulation.

NZ1.4 In applying the requirements outlined in the Code, assurance practitioners shall be guided, not merely by the words, but also by the spirit of this Code.

PART A—FUNDAMENTAL PRINCIPLES

SECTION 100

Introduction and Fundamental Principles

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, an assurance practitioner's responsibility is not exclusively to satisfy the needs of an individual client. In acting in the public interest, an assurance practitioner shall observe and comply with this Code. If an assurance practitioner is prohibited from complying with certain parts of this Code by law or regulation, the assurance practitioner shall comply with all other parts of this Code.

100.2 This Code contains two parts. Part A establishes the fundamental principles of ethics for assurance practitioners and provides a conceptual framework that assurance practitioners shall apply to:

(a) Identify threats to compliance with the fundamental principles;

(b) Evaluate the significance of the threats identified; and

(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the assurance practitioner determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the assurance practitioner at that time, that compliance with the fundamental principles is not compromised.

An assurance practitioner shall use professional judgement in applying this conceptual framework.

100.3 Part B describes how the conceptual framework applies in certain situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. It also describes situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided.

100.4 The use of the word "shall" in this Code imposes a requirement on the assurance practitioner or firm to comply with the specific provision in which "shall" has been used. Compliance is required unless an exception is permitted by this Code.

Fundamental Principles

100.5 An assurance practitioner shall comply with the following fundamental principles:

(a) *Integrity* – to be straightforward and honest in all professional and business relationships.

(b) *Objectivity* – to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

(c) *Professional Competence and Due Care* – to maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance services based on current developments in practice, legislation and techniques and act diligently and in accordance with the standards issued by the External

Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

(d) *Confidentiality* – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the assurance practitioner or third parties.

(e) *Professional Behaviour* – to comply with relevant laws and regulations and avoid any action that discredits the assurance practitioner's profession.

Each of these fundamental principles is discussed in more detail in Sections 110–150.

Conceptual Framework Approach

100.6 The circumstances in which assurance practitioners operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires an assurance practitioner to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists assurance practitioners in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter an assurance practitioner from concluding that a situation is permitted if it is not specifically prohibited.

100.7 When an assurance practitioner identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the assurance practitioner shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. In making that determination, the assurance practitioner shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the assurance practitioner at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.

100.8 An assurance practitioner shall evaluate any threats to compliance with the fundamental principles when the assurance practitioner knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.

100.9 An assurance practitioner shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, an assurance practitioner may encounter situations in which threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In

such situations, the assurance practitioner shall decline or discontinue the specific assurance service involved or, when necessary, resign from the engagement.

100.10 Sections 290 and 291 contain provisions with which an assurance practitioner shall comply if the assurance practitioner identifies a breach of an independence provision of the Code. If an assurance practitioner identifies a breach of any other provision of this Code, the assurance practitioner shall evaluate the significance of the breach and its impact on the assurance practitioner's ability to comply with the fundamental principles. The assurance practitioner shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The assurance practitioner shall determine whether to report the breach, for example, to those who may have been affected by the breach, a professional body, relevant regulator or oversight authority.

100.11 When an assurance practitioner encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the assurance practitioner consult with a professional body or the relevant regulator.

Threats and Safeguards

100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, an assurance practitioner's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

(a) Self-interest threat ─ the threat that a financial or other interest will inappropriately influence the assurance practitioner's judgement or behaviour;

(b) Self-review threat ─ the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made or service performed by the assurance practitioner, or by another individual within the assurance practitioner's firm, on which the assurance practitioner will rely when forming a judgement as part of providing a current service;

(c) Advocacy threat ─ the threat that an assurance practitioner will promote a client's position to the point that the assurance practitioner's objectivity is compromised;

(d) Familiarity threat ─ the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat ─ the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.

Part B of this Code explains how these categories of threats may be created for assurance practitioners.

100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:

(a) Safeguards created by the assurance practitioner's profession, legislation or regulation; and

(b) Safeguards within the firm's own systems and procedures.

100.14 Safeguards created by the assurance practitioner's profession, legislation or regulation include:

- Educational, training and experience requirements for entry into the assurance practitioner's profession.
- Continuing professional development requirements.
- Corporate governance regulations.
- Professional standards.
- Professional or regulatory monitoring and disciplinary procedures.
- External review by a legally empowered third party of the assurance reports, communications or information produced by an assurance practitioner.

100.15 Part B of this Code discusses safeguards in the firm's own systems and procedures for assurance practitioners.

100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the assurance practitioner's profession, legislation, regulation, or within the firm's own systems and procedures include:

- Effective, well-publicised complaint systems operated by the firm, the assurance practitioner's profession or a regulator, which enable colleagues and members of the public to draw attention to unprofessional or unethical behaviour.
- An explicitly stated duty to report breaches of ethical requirements.

Conflicts of Interest

100.17 An assurance practitioner may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to other fundamental principles. Such threats may be created when:

- The assurance practitioner undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
- The interests of the assurance practitioner with respect to a particular matter and the interests of a party for whom the assurance practitioner undertakes professional activity related to that matter are in conflict.

100.18 Part B of this Code discusses conflicts of interest for assurance practitioners.

Ethical Conflict Resolution

100.19 An assurance practitioner may be required to resolve a conflict in complying with the fundamental principles.

100.20 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:

(a) Relevant facts;

(b) Ethical issues involved;

(c) Fundamental principles related to the matter in question;

(d) Established internal procedures; and

(e) Alternative courses of action.

Having considered the relevant factors, an assurance practitioner shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the assurance practitioner may wish to consult with other appropriate persons within the firm for help in obtaining resolution.

100.21 Where a matter involves a conflict with, or within, an organisation, an assurance practitioner shall determine whether to consult with those charged with governance of the organisation, such as the board of directors or the audit committee.

100.22 It may be in the best interests of the assurance practitioner to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

100.23 If a significant conflict cannot be resolved, an assurance practitioner may consider obtaining professional advice from the relevant professional body or from legal advisors. The assurance practitioner generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the assurance practitioner may consider obtaining legal advice vary. For example, an assurance practitioner may have encountered a fraud, the reporting of which could breach the assurance practitioner's responsibility to respect confidentiality. The assurance practitioner may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, an assurance practitioner shall, where possible, refuse to remain associated with the matter creating the conflict. The assurance practitioner shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, or the firm.

SECTION 110

Integrity

110.1 The principle of integrity imposes an obligation on all assurance practitioners to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

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

(a) Contains a materially false or misleading statement;

(b) Contains statements or information furnished recklessly; or

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

When an assurance practitioner becomes aware that the assurance practitioner has been associated with such information, the assurance practitioner shall take steps to be disassociated from that information.

110.3 An assurance practitioner will be deemed not to be in breach of paragraph 110.2 if the assurance practitioner provides a modified report in respect of a matter contained in paragraph 110.2.

SECTION 120

Objectivity

120.1 The principle of objectivity imposes an obligation on all assurance practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.

120.2 An assurance practitioner may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. An assurance practitioner shall not perform an assurance engagement if a circumstance or relationship biases or unduly influences the assurance practitioner's professional judgement with respect to that service.

SECTION 130

Professional Competence and Due Care

130.1 The principle of professional competence and due care imposes the following obligations on all assurance practitioners:

(a) To maintain professional knowledge and skill at the level required to ensure that clients receive competent assurance service; and

(b) To act diligently in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board when providing assurance services.

130.2 Competent assurance service requires the exercise of sound judgement in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

(a) Attainment of professional competence; and

(b) Maintenance of professional competence.

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables an assurance practitioner to develop and maintain the capabilities to perform competently within the assurance environment.

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

130.5 An assurance practitioner shall take reasonable steps to ensure that those working under the assurance practitioner's authority in a professional capacity have appropriate training and supervision.

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

SECTION 140

Confidentiality

140.1 The principle of confidentiality imposes an obligation on all assurance practitioners to refrain from:

(a) Disclosing outside the firm confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

(b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

140.2 An assurance practitioner shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member.

140.3 An assurance practitioner shall maintain confidentiality of information disclosed by a prospective client.

140.4 An assurance practitioner shall maintain confidentiality of information within the firm.

140.5 An assurance practitioner shall take reasonable steps to ensure that staff under the assurance practitioner's control and persons from whom advice and assistance is obtained respect the assurance practitioner's duty of confidentiality.

140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between an assurance practitioner and a client. When an assurance practitioner acquires a new client, the assurance practitioner is entitled to use prior experience. The assurance practitioner shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

140.7 The following are circumstances where assurance practitioners are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a) Disclosure is permitted by law and is authorised by the client;

(b) Disclosure is required by law, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(c) There is a professional duty or right to disclose, when not prohibited by law:

(i) To comply with the quality review of a professional body;

(ii) To respond to an enquiry or investigation by a professional body or regulatory body;

(iii) To protect the professional interests of an assurance practitioner in legal proceedings; or

(iv) To comply with technical standards and ethics requirements.

NZ140.7.1 The circumstances in paragraph 140.7 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing confidential information about a client without their consent is strongly advised to first obtain legal advice.

140.8 In deciding whether to disclose confidential information, relevant factors to consider include:

(a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client consents to the disclosure of information by the assurance practitioner;

(b) Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement shall be used in determining the type of disclosure to be made, if any;

(c) The type of communication that is expected and to whom it is addressed; and

(d) Whether the parties to whom the communication is addressed are appropriate recipients.

Fraudulent or Illegal Activities and Confidentiality

NZ140.9 Where an assurance practitioner, in the course of the assurance practitioner's assurance engagements, discovers evidence of fraudulent or illegal activities, the assurance practitioner shall:

(a) Where appropriate, raise the matter with those charged with governance of the client; and

(b) Consider the assurance practitioner's legal and professional rights and duties to disclose the information to other parties, (as described in NZ 140.10 below).

NZ140.10 In circumstances where the assurance practitioner discovers evidence of fraudulent or illegal activities and there is no legal or professional right or duty to disclose, then the assurance practitioner shall not communicate the information to a third party without the consent of those charged with governance of the client. However, the assurance practitioner shall do all that can be done to persuade those charged with governance of the client to fulfil any legal obligations. If those charged with governance decline, the assurance practitioner shall consider safeguarding the assurance practitioner's integrity by declining to undertake further assurance engagements on behalf of the client concerned.

SECTION 150

Professional Behaviour

150.1 The principle of professional behaviour imposes an obligation on all assurance practitioners to comply with relevant laws and regulations and avoid any action that the assurance practitioner knows or should know may discredit the assurance practitioner's profession. This includes actions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude adversely affects the good reputation of the assurance practitioner's profession.

150.2 In marketing and promoting themselves and their work, assurance practitioners shall not bring the assurance practitioner's profession into disrepute. Assurance practitioners shall be honest and truthful and not:

(a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or

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

PART B—APPLICATION OF THE FUNDAMENTAL PRINCIPLES

SECTION 200

Introduction

200.1 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to assurance practitioners. This Part does not describe all of the circumstances and relationships that could be encountered by an assurance practitioner that create or may create threats to compliance with the fundamental principles. Therefore, the assurance practitioner is encouraged to be alert for such circumstances and relationships.

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

Threats and Safeguards

200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit or review client and whether the audit or review client is a public interest entity, to an assurance client that is not an audit or review client.

Threats fall into one or more of the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed further in Part A of this Code.

200.4 Examples of circumstances that create self-interest threats for an assurance practitioner include:

- A member of the assurance team having a direct financial interest in the assurance client.
- A firm having undue dependence on total fees from a client.
- A member of the assurance team having a significant close business relationship with an assurance client.
- A firm being concerned about the possibility of losing a significant client.
- A member of the audit team entering into employment negotiations with the audit client.
- A firm entering into a contingent fee arrangement relating to an assurance engagement.

- An assurance practitioner discovering a significant error when evaluating the results of a previous professional service performed by a member of the assurance practitioner's firm.

200.5 Examples of circumstances that create self-review threats for an assurance practitioner include:

- A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- A member of the assurance team being, or having recently been, a director or officer of the client.
- A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.
- The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement.

200.6 Examples of circumstances that create advocacy threats for an assurance practitioner include:

- The firm promoting shares in an audit client.
- An assurance practitioner acting as an advocate on behalf of an audit client in litigation or disputes with third parties.

200.7 Examples of circumstances that create familiarity threats for an assurance practitioner include:

- A member of the engagement team having a close or immediate family member who is a director or officer of the client.
- A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
- A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.
- An assurance practitioner accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
- Senior personnel having a long association with the assurance client.

200.8 Examples of circumstances that create intimidation threats for an assurance practitioner include:

- A firm being threatened with dismissal from a client engagement.
- An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client's accounting treatment for a particular transaction.

- A firm being threatened with litigation by the client.
- A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- An assurance practitioner feeling pressured to agree with the judgement of a client employee because the employee has more expertise on the matter in question.
- A member of the engagement team being informed by a partner of the firm that a planned promotion will not occur unless the engagement team member agrees with an audit client's inappropriate accounting treatment.

200.9 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

(a) Safeguards created by the assurance practitioner's profession, legislation or regulation; and

(b) Safeguards within the firm's own systems and procedures.

Examples of safeguards created by the assurance practitioner's profession, legislation or regulation are described in paragraph 100.14 of Part A of this Code.

200.10 An assurance practitioner shall exercise judgement to determine how best to deal with threats that are not at an acceptable level, whether by applying safeguards to eliminate the threat or reduce it to an acceptable level or by terminating or declining the relevant engagement. In exercising this judgement, an assurance practitioner shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

200.11 Within the firm's own systems and procedures, the relevant safeguards will vary depending on the circumstances. These safeguards comprise firm-wide safeguards and engagement-specific safeguards.

200.12 Examples of firm-wide safeguards include:

- Leadership of the firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
- Documented internal policies and procedures requiring compliance with the fundamental principles.

- Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's policies and procedures, including any changes to them, to all partners and assurance staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Advising partners and professional staff of assurance clients and related entities from which independence is required.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

200.13 Examples of engagement-specific safeguards include:

- Having an assurance practitioner who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having an assurance practitioner who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional or regulatory body or another assurance practitioner.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Involving another firm to perform or re-perform part of the engagement.
- Rotating senior assurance team personnel.

200.14 Depending on the nature of the engagement, an assurance practitioner may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.

200.15 Examples of safeguards within the client's systems and procedures include:

- The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement.

- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

SECTION 210

Professional Appointment

Client Acceptance

210.1 Before accepting a new client relationship, an assurance practitioner shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management or activities).

210.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.

210.3 An assurance practitioner shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level.

Examples of such safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
- Securing the client's commitment to improve corporate governance practices or internal controls.

210.4 Where it is not possible to reduce the threats to an acceptable level, the assurance practitioner shall decline to enter into the client relationship.

210.5 It is recommended that an assurance practitioner periodically review acceptance decisions for recurring client engagements.

Engagement Acceptance

210.6 The fundamental principle of professional competence and due care imposes an obligation on an assurance practitioner to provide only those services that the assurance practitioner is competent to perform. Before accepting a specific client engagement, an assurance practitioner shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

210.7 An assurance practitioner shall evaluate the significance of threats and apply safeguards, when necessary, to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.

- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.8 When an assurance practitioner intends to rely on the advice or work of an expert, the assurance practitioner shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

210.9 An assurance practitioner who is asked to replace another assurance practitioner, or who is considering tendering for an engagement currently held by another assurance practitioner, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an acceptable level by the application of safeguards. For example, there may be a threat to professional competence and due care if an assurance practitioner accepts the engagement before knowing all the pertinent facts.

210.10 An assurance practitioner shall evaluate the significance of any threats. Depending on the nature of the engagement, this may require direct communication with the existing assurance practitioner to establish the facts and circumstances regarding the proposed change so that the assurance practitioner can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing assurance practitioner that may influence the decision to accept the appointment.

210.11 Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing assurance practitioner will be requested so that enquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- Asking the existing assurance practitioner to provide known information on any facts or circumstances that, in the existing assurance practitioner's opinion, the proposed assurance practitioner needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources.

When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, an assurance practitioner shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

210.12 An assurance practitioner may be asked to undertake assurance work that is complementary or additional to the work of the existing assurance practitioner. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is notifying the existing assurance practitioner of the proposed work, which would give the existing assurance practitioner the opportunity to provide any relevant information needed for the proper conduct of the work.

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

(a) Whether the client's permission to do so has been obtained; or

(b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

Circumstances where the assurance practitioner is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of Part A of this Code.

210.14 An assurance practitioner will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an existing assurance practitioner. Once that permission is obtained, the existing assurance practitioner shall comply with relevant legal and other regulations governing such requests. Where the existing assurance practitioner provides information, it shall be provided honestly and unambiguously. If the proposed assurance practitioner is unable to communicate with the existing assurance practitioner, the proposed assurance practitioner shall take reasonable steps to obtain information about any possible threats by other means, such as through enquiries of third parties or background investigations of senior management or those charged with governance of the client.

SECTION 220

Conflicts of Interest

220.1 An assurance practitioner may be faced with a conflict of interest on the assurance engagement when performing a professional service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The assurance practitioner provides a professional service related to a particular matter for two or more assurance clients whose interests with respect to that matter are in conflict; or
- The interests of the assurance practitioner with respect to a particular matter and the interests of the assurance client for whom the assurance practitioner provides a professional service related to that matter are in conflict.

An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.

When the professional service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Sections 290 or 291 as appropriate.

220.2 Examples of situations in which conflicts of interests may arise include:

- Providing a transaction advisory service to a client seeking to acquire an audit client of the firm, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction;
- Advising two clients at the same time who are competing to acquire the same company where the advice might be relevant to the parties' competitive positions;
- Providing services to both a vendor and a purchaser in relation to the same transaction;
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets;
- Representing two clients regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership;
- Providing an assurance report for a licensor on royalties due under a license agreement when at the same time advising the licensee of the correctness of the amounts payable;
- Advising a client to invest in a business in which, for example, the spouse of the assurance practitioner has a financial interest;
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client;
- Advising a client on the acquisition of a business which the firm is also interested in acquiring;
- Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service.

220.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, an assurance practitioner shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude, that compliance with the fundamental principles is not compromised.

220.4 When addressing conflicts of interest including making disclosures or sharing information within the firm or network and seeking guidance of third parties, the assurance practitioner shall remain alert to the fundamental principle of confidentiality.

220.5 If the threat created by a conflict of interest is not at an acceptable level, the assurance practitioner shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the assurance practitioner shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

220.6 Before accepting a new client relationship, engagement, or business relationship, an assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest including identification of:

- The nature of the relevant interests and relationships between the parties involved; and
- The nature of the service and its implication for relevant parties.

The nature of the services and the relevant interests and relationships may change during the course of the engagement. This is particularly true when an assurance practitioner is asked to conduct an engagement in a situation that may become adversarial, even though the parties who engage the assurance practitioner may not initially be involved in a dispute. The assurance practitioner shall remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

220.7 For the purposes of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists an assurance practitioner to identify actual or potential conflicts of interest prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the assurance practitioner being able to apply safeguards, when necessary, to eliminate the threat to objectivity and any threat to compliance with other fundamental principles or reduce it to an acceptable level. The process to identify actual or potential conflicts of interest depends on such factors as:

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

220.8 If the firm is a member of a network, conflict identification shall include any conflicts of interest that the assurance practitioner has reason to believe may exist or might arise due to interests and relationships of a network firm. Reasonable steps to identify such interests and relationships involving a network firm will depend on factors such as the nature of the professional services provided, the clients served by the network and the geographic locations of all relevant parties.

220.9 If a conflict of interest is identified the assurance practitioner shall evaluate:

- The significance of relevant interests or relationships; and
- The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service and the matter on which the parties' interest are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.

220.10 The assurance practitioner shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Examples of safeguards include:

- Implementing mechanisms to prevent unauthorised disclosure of confidential information when performing professional services related to the matter for two or more clients whose interests with respect to that matter are in conflict. This could include:
  - using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality;
  - creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm;
  - establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information;
- Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements;
- Having an assurance practitioner who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgements and conclusions are appropriate; and
- Consulting with third parties, such as a professional body, legal counsel or another assurance practitioner.

NZ220.10.1 Where an assurance practitioner has a conflict of interest but can apply safeguards to eliminate the threat or reduce it to an acceptable level, the assurance practitioner shall disclose the nature of the conflict of interest and the related safeguards, if any, to all clients or potential clients affected by the conflict. When safeguards are required to reduce the threat to an acceptable level, the assurance practitioner shall obtain the client's consent to the assurance practitioner performing the assurance services.

220.11 [Amended by the NZAuASB. Refer to NZ220.10.1].

NZ220.11 Disclosure and consent may take different forms, for example:

- General disclosure to clients of circumstances where the assurance practitioner, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the assurance practitioner's standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly.
- In certain circumstances consent may be implied by the client's conduct where the assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

The assurance practitioner shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose the assurance practitioner shall exercise professional judgement in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

220.12 Where an assurance practitioner has requested explicit consent from a client and that consent has been refused by the client, the assurance practitioner shall decline to perform or shall discontinue professional services that would result in a conflict of interest; or shall terminate relevant relationships or dispose of relevant interest to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards if necessary.

220.13 When disclosure is verbal, or consent is verbal or implied, the assurance practitioner is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.

220.14 [Deleted by the NZAuASB. Refer to NZ220.14].

NZ220.14 In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall withdraw or resign from the relevant assurance engagement.

SECTION 230

Second Opinions

230.1 [Deleted by the NZAuASB].

230.2 [Deleted by the NZAuASB].

230.3 [Deleted by the NZAuASB].

SECTION 240

Fees and Other Types of Remuneration

240.1 When entering into negotiations regarding assurance services, an assurance practitioner may quote whatever fee is deemed appropriate. The fact that one assurance practitioner may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board for that price.

240.2 The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
- Assigning appropriate time and qualified staff to the task.

240.3 Contingent fees are widely used for certain types of non-assurance engagements.[1] They may, however, create threats to compliance with the fundamental principles in certain circumstances. They may create a self-interest threat to objectivity. The existence and significance of such threats will depend on factors including:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Whether the outcome or result of the transaction is to be reviewed by an independent third party.

240.4 The significance of any such threats shall be evaluated and safeguards applied when necessary to eliminate or reduce them to an acceptable level. Examples of such safeguards include:

- An advance written agreement with the client as to the basis of remuneration.
- Disclosure to intended users of the work performed by the assurance practitioner and the basis of remuneration.
- Quality control policies and procedures.
- Review by an independent third party of the work performed by the assurance practitioner.

240.5 [Deleted by the NZAuASB. Refer to NZ240.9].

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1 Contingent fees for non-assurance services provided to audit or review clients and other assurance clients are discussed in Sections 290 and 291 of this part of the Code.

240.6 [Deleted by the NZAuASB. Refer to NZ240.9].

240.7 [Deleted by the NZAuASB. Refer to NZ240.9].

240.8 An assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs NZ240.9 below.

NZ240.9 The receipt or payment of referral fees, commissions or other similar benefits in connection with an assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level. Accordingly, an assurance practitioner shall not accept such a fee arrangement in respect of an assurance engagement.

SECTION 250

Marketing Assurance Services

250.1 When an assurance practitioner solicits new work through advertising or other forms of marketing, there may be a threat to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behaviour is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.

250.2 An assurance practitioner shall not bring the assurance practitioner's profession into disrepute when marketing assurance services. The assurance practitioner shall be honest and truthful and not:

(a) Make exaggerated claims for services offered, qualifications possessed, or experience gained; or

(b) Make disparaging references or unsubstantiated comparisons to the work of another.

If the assurance practitioner is in doubt about whether a proposed form of advertising or marketing is appropriate, the assurance practitioner shall consider consulting with the relevant professional body.

SECTION 260

Gifts and Hospitality

260.1 An assurance practitioner, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.

260.2 The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, an assurance practitioner may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the assurance practitioner may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.

260.3 An assurance practitioner shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, an assurance practitioner shall not accept such an offer.

SECTION 270

Custody of Client Assets

270.1 An assurance practitioner shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on an assurance practitioner holding such assets.

270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behaviour and may be a self interest threat to objectivity arising from holding client assets. An assurance practitioner entrusted with money (or other assets) belonging to others shall therefore:

(a) Keep such assets separately from personal or firm assets;

(b) Use such assets only for the purpose for which they are intended;

(c) At all times be ready to account for those assets and any income, dividends, or gains generated, to any persons entitled to such accounting; and

(d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, an assurance practitioner shall make appropriate enquiries about the source of such assets and consider legal and regulatory obligations. For example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the assurance practitioner may consider seeking legal advice.

SECTION 280

Objectivity

280.1 An assurance practitioner shall determine when providing any assurance service whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or its directors, officers or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.

280.2 An assurance practitioner who provides an assurance service shall be independent of the assurance client. Independence of mind and in appearance is necessary to enable the assurance practitioner to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Sections 290 and 291 provide specific guidance on independence requirements for assurance practitioners when performing assurance engagements.

280.3 The existence of threats to objectivity when providing any assurance service will depend upon the particular circumstances of the engagement and the nature of the work that the assurance practitioner is performing.

280.4 An assurance practitioner shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

- Withdrawing from the engagement team.
- Supervisory procedures.
- Terminating the financial or business relationship giving rise to the threat.
- Discussing the issue with higher levels of management within the firm.
- Discussing the issue with those charged with governance of the client.

If safeguards cannot eliminate or reduce the threat to an acceptable level, the assurance practitioner shall decline or terminate the relevant engagement.

SECTION 290

INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

CONTENTS

Structure of Section

290.1 This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which an assurance practitioner expresses a conclusion on financial statements**.** Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement. Independence requirements for assurance engagements that are not audit or review engagements of financial statements or a single financial statement are addressed in Section 291.

NZ290.1.1 This section also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

290.2 In certain circumstances involving audit or review engagements where the audit or review report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in paragraphs 290.500 to 290.514. The modifications are not permitted in the case of an audit or review of financial statements required by law or regulation.

290.3 In this section, the term(s) "Firm" includes network firm, except where otherwise stated.

A Conceptual Framework Approach to Independence

290.4 In the case of audit and review engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of audit or review teams, firms and network firms shall be independent of audit or review clients.

290.5 The objective of this section is to assist firms and members of audit or review teams in applying the conceptual framework approach described below to achieving and maintaining independence.

290.6 Independence comprises:

(a) Independence of Mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.

(b) Independence in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or review team's, integrity, objectivity or professional scepticism has been compromised.

290.7 The conceptual framework approach shall be applied by assurance practitioners to:

(a) Identify threats to independence;

(b) Evaluate the significance of the threats identified; and

(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

When the assurance practitioner determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall eliminate the circumstance or relationship creating the threats or decline or terminate the audit or review engagement.

An assurance practitioner shall use professional judgement in applying this conceptual framework.

290.8 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of audit or review teams to identify, evaluate, and address threats to independence. The conceptual framework approach assists assurance practitioners in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence and can deter an assurance practitioner from concluding that a situation is permitted if it is not specifically prohibited.

290.9 Paragraphs 290.100 and onwards describe how the conceptual framework approach to independence is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence.

290.10 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit or review team, a firm shall identify and evaluate threats to independence. If the threats are not at an acceptable level, and the decision is whether to accept an engagement or include a particular individual on the audit or review team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.

290.11 Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.

NZ290.11.1 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.

290.12 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organisation of a firm. The firm is required by Professional and Ethical Standard 3 to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by

relevant ethical requirements. In addition, International Standards on Auditing (New Zealand) require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

Networks and Network Firms

290.13 If a firm is deemed to be a network firm, the firm shall be independent of the audit or review clients of the other firms within the network (unless otherwise stated in this Code). The independence requirements in this section that apply to a network firm apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.

290.14 To enhance their ability to provide assurance services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.

290.15 The judgement as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgement shall be applied consistently throughout the network.

290.16 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, 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 to jointly provide a service or develop a product does not in itself create a network.

290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.

290.18 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.

290.19 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates

with another entity solely to respond jointly to a request for a proposal for the provision of an assurance service.

290.20 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be 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.

290.21 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.

290.22 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

290.23 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network. Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

290.24 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Public Interest Entities

290.25 [Amended by the NZAuASB. Refer to NZ290.25].

NZ290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that are publicly accountable or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any for-profit entity that is required or chooses to report in accordance with Tier 1 under XRB A1[2]; and
- Any other public benefit entity[3] that applies the full financial reporting standards.

290.26 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. 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 may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

Related Entities

290.27 In the case of an audit or review client that is an issuer, references to an audit or review client in this section include related entities of the client (unless otherwise stated). For all other audit or review clients, references to an audit or review client in this section 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 another 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 and evaluating threats to independence and applying appropriate safeguards.

Those Charged with Governance

290.28 Even when not required by the Code, applicable auditing or review engagement standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit or review client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

(a) Consider the firm's judgements in identifying and evaluating threats to independence,

(b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and

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2 XRB A1 *Application of Accounting Standards.*

3 XRB A1 for Tier 1 public benefit entities will only be finalised in 2014/2015. It is the intention of the NZAuASB that all Tier 1 entities will meet the definition of a public interest entity, for the purposes of this standard.

(c) Take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

Documentation

290.29 Documentation provides evidence of the assurance practitioner's judgements in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether a firm considered a particular matter nor whether it is independent.

The assurance practitioner shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

(a) When safeguards are required to reduce a threat to an acceptable level, the assurance practitioner shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and

(b) When a threat required significant analysis to determine whether safeguards were necessary and the assurance practitioner concluded that they were not because the threat was already at an acceptable level, the assurance practitioner shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

290.30 Independence from the audit or review client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit or review team begins to perform audit or review services. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit or review report.

290.31 When 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, the firm shall determine whether any threats to independence are created by:

- 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
- Previous services provided to the audit or review client.

290.32 If a non-assurance service was provided to the audit or review client during or after the period covered by the financial statements but before the audit or review team begins to perform audit or review services and the service would not be permitted during the period of the audit or review engagement, the firm shall evaluate any threat to independence created by the service. If a threat is not at an acceptable level, the audit or review engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- Not including personnel who provided the non-assurance service as members of the audit or review team;

- Having an additional assurance practitioner review the audit or review and non-assurance work as appropriate; or
- 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 it to take responsibility for the service.

Mergers and Acquisitions

290.33 When, as a result of a merger or acquisition, an entity becomes a related entity of an audit or review client, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its independence and therefore its ability to continue the audit or review engagement after the effective date of the merger or acquisition.

290.34 The firm shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code. However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity is unable by the effective date to effect an orderly transition to another service practitioner of a non-assurance service provided by the firm, the firm shall evaluate the threat that is created by such interest or relationship. The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:

- 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); and
- The length of time until the interest or relationship can reasonably be terminated.

The firm shall discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.

290.35 If those charged with governance request the firm to continue as auditor, the firm shall do so only if:

(a) The interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of 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 under this section, 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) Appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance. Examples of transitional measures include:

- Having an assurance practitioner review the audit or review or non-assurance work as appropriate;

- Having an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is equivalent to an engagement quality control review; or
- 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 it to take responsibility for the service.

290.36 The firm may have completed a significant amount of work on the audit or review prior to the effective date of the merger or acquisition and may 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 290.33, the firm shall do so only if it:

(a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance;

(b) Complies with the requirements of paragraph 290.35(ii)–(iii); and

(c) Ceases to be the auditor no later than the issuance of the audit or review report.

290.37 When addressing previous and current interests and relationships covered by paragraphs 290.33 to 290.36, the firm shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the auditor.

290.38 The assurance practitioner shall document any interests or relationships covered by paragraphs 290.34 and 290.36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

Breach of a Provision of this Section

290.39 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of a breach may be that termination of the audit or review engagement is necessary.

290.40 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

290.41 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a professional body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.

290.42 When a breach is identified, the firm shall in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an audit or review report. The significance of the breach 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 a member of the audit or review team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the audit or review team or another individual for whom there are independence requirements;
- If the breach relates to a member of the audit or review team, the role of that individual;
- If the breach was caused by the provision of 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; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

290.43 Depending upon the significance of the breach, it may be necessary to terminate the audit or review engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine 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, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit or review report.

290.44 Examples of actions that the firm may consider include:

- Removing the relevant individual from the audit or review team;
- Conducting an additional review of the affected audit or review work or re-performing that work to the extent necessary, in either case using different personnel;
- 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; and
- Where the breach relates to a non-assurance service that affects the accounting records or an amount that is 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 it to take responsibility for the service.

290.45 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the audit or review engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

290.46 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for reporting less significant breaches. The matters to be discussed shall include:

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

290.47 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph 290.46 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. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

290.48 If the breach occurred prior to the issuance of the previous audit or review report, the firm shall comply with this section 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. The firm shall also 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 discuss the matter with those charged with governance.

290.49 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a professional body, relevant regulator or oversight authority. When the firm continues with the audit or review engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an audit or review report.

Paragraphs 290.50 to 290.99 are intentionally left blank.

Application of the Conceptual Framework Approach to Independence

290.100 Paragraphs 290.102 to 290.231 describe specific circumstances and relationships that create or may create threats to independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and identify certain situations where no safeguards could reduce the threats to an acceptable level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence. The firm and the members of the audit or review team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to independence or reduce them to an acceptable level.

290.101 Paragraphs 290.102 to 290.126 contain references to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of 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.

Financial Interests

290.102 Holding a financial interest in an audit or review client may create a self-interest threat. The existence and significance of any threat created depends on:

(a) The role of the person holding the financial interest,

(b) Whether the financial interest is direct or indirect, and

(c) The materiality of the financial interest.

290.103 Financial interests may be held through an intermediary (for example, a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.

290.104 If a member of the audit or review team, a member of that individual's immediate family, or a firm has a direct financial interest or a material indirect financial interest in the audit or review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the audit or review team; a member of that individual's immediate family; or the firm.

290.105 When a member of the audit or review team has a close family member who the audit or review team member knows has a direct financial interest or a material indirect

financial interest in the audit or review client, a self-interest threat is created. The significance of the threat will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;
- Having an additional assurance practitioner review the work of the member of the audit or review team; or
- Removing the individual from the audit or review team.

290.106 If a member of the audit or review team, a member of that individual's immediate family, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the audit or review client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have such a financial interest: a member of the audit or review team; a member of that individual's immediate family; and the firm.

290.107 The holding by a firm's retirement benefit plan of a direct or material indirect financial interest in an audit or review client creates a self-interest threat. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

290.108 If other partners in the office in which the engagement partner practices in connection with the audit or review engagement, or their immediate family members, hold a direct financial interest or a material indirect financial interest in that audit or review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither such partners nor their immediate family members shall hold any such financial interests in such an audit or review client.

290.109 The office in which the engagement partner practices in connection with the audit or review engagement is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the audit or review team, professional judgement shall be used to determine in which office the partner practices in connection with that engagement.

290.110 If other partners and managerial employees who provide non-assurance services to the audit or review client, except those whose involvement is minimal, or their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit or review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither such

personnel nor their immediate family members shall hold any such financial interests in such an audit or review client.

290.111 Despite paragraphs 290.108 and 290.110, the holding of a financial interest in an audit or review client by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit or review engagement, or (b) a partner or managerial employee who provides non-assurance services to the audit or review client, is deemed not to compromise independence if the financial interest is received as a result of the immediate family member's employment rights (for example, through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level. However, when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest shall be disposed of or forfeited as soon as practicable.

290.112 A self-interest threat may be created if the firm or a member of the audit or review team, or a member of that individual's immediate family, has a financial interest in an entity and an audit or review client also has a financial interest in that entity. However, independence is deemed not to be compromised if these interests are immaterial and the audit or review client cannot exercise significant influence over the entity. If such interest is material to any party, and the audit or review client can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such an interest and any individual with such an interest shall, before becoming a member of the audit or review team, either:

(a) Dispose of the interest; or

(b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.

290.113 A self-interest, familiarity or intimidation threat may be created if a member of the audit or review team, or a member of that individual's immediate family, or the firm, has a financial interest in an entity when a director, officer or controlling owner of the audit or review client is also known to have a financial interest in that entity. The existence and significance of any threat will depend upon factors such as:

- The role of the assurance practitioner on the audit or review team;
- Whether ownership of the entity is closely or widely held;
- Whether the interest gives the investor the ability to control or significantly influence the entity; and
- The materiality of the financial interest.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the member of the audit or review team with the financial interest from the audit or review team; or
- Having an additional assurance practitioner review the work of the member of the audit or review team.

290.114 The holding by a firm, or a member of the audit or review team, or a member of that individual's immediate family, of a direct financial interest or a material indirect financial interest in the audit or review client as a trustee creates a self-interest threat. Similarly, a self-interest threat is created when:

(a) A partner in the office in which the engagement partner practices in connection with the audit or review;

(b) Other partners and managerial employees who provide non-assurance services to the audit or review client, except those whose involvement is minimal; or

(c) Their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit or review client as trustee.

Such an interest shall not be held unless:

(a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;

(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) The trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the audit or review client.

290.115 Members of the audit or review team shall determine whether a self-interest threat is created by any known financial interests in the audit or review client held by other individuals including:

- Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and
- Individuals with a close personal relationship with a member of the audit or review team.

Whether these interests create a self-interest threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the member of the audit or review team with the personal relationship from the audit or review team;
- Excluding the member of the audit or review team from any significant decision-making concerning the audit or review engagement; or

- Having an additional assurance practitioner review the work of the member of the audit or review team.

290.116 If a firm or a partner or employee of the firm, or a member of the partner or employee's immediate family, receives a direct financial interest or a material indirect financial interest in an audit or review client, for example, by way of an inheritance, gift or as a result of a merger and such interest would not be permitted to be held under this section, then:

(a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material;

(b) If the interest is received by a member of the audit or review team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material; or

(c) If the interest is received by an individual who is not a member of the audit or review team, or by an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.

290.117 [Deleted by the IESBA].

Loans and Guarantees

290.118 A loan, or a guarantee of a loan, to a member of the audit or review team, or a member of that individual's immediate family, or the firm from an audit or review client that is a bank or a similar institution may create a threat to independence. If the loan or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither a member of the audit or review team, a member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.

290.119 If a loan to a firm from an audit or review client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit or review client or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by an additional assurance practitioner from a network firm that is neither involved with the audit or review nor received the loan.

290.120 A loan, or a guarantee of a loan, from an audit or review client that is a bank or a similar institution to a member of the audit or review team, or a member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

290.121 If the firm or a member of the audit or review team, or a member of that individual's immediate family, accepts a loan from, or has a borrowing guaranteed by, an audit or review client that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit or review team and the immediate family member, and (b) the client.

290.122 Similarly, if the firm or a member of the audit or review team, or a member of that individual's immediate family, makes or guarantees a loan to an audit or review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit or review team and the immediate family member, and (b) the client.

290.123 If a firm or a member of the audit or review team, or a member of that individual's immediate family, has deposits or a brokerage account with an audit or review client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.

Business Relationships

290.124 A close business relationship between a firm, or a member of the audit or review team, or a member of that individual's immediate family, and the audit or review client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

In the case of a member of the audit or review team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit or review team.

If the business relationship is between an immediate family member of a member of the audit or review team and the audit or review client or its management, the significance

of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

290.125 A business relationship involving the holding of an interest by the firm, or a member of the audit or review team, or a member of that individual's immediate family, in a closely-held entity when the audit or review client or a director or officer of the client, or any group thereof, also holds an interest in that entity does not create threats to independence if:

(a) The business relationship is insignificant to the firm, the member of the audit or review team and the immediate family member, 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.

290.126 The purchase of goods and services from an audit or review client by the firm, or a member of the audit or review team, or a member of that individual's immediate family, does not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

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

Family and Personal Relationships

290.127 Family and personal relationships between a member of the audit or review team and a director or officer or certain employees (depending on their role) of the audit or review client may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including 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.

290.128 When an immediate family member of a member of the audit or review team 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 was in such a position during any period covered by the engagement or the financial statements, the threats to independence can only be reduced to an acceptable level by removing the individual from the audit or review team. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level. Accordingly, no individual who has such a relationship shall be a member of the audit or review team.

290.129 Threats to independence are created when an immediate family member of a member of the audit or review team is an employee in a position to exert significant influence over

the client's financial position, financial performance or cash flows. The significance of the threats will depend on factors such as:

- The position held by the immediate family member; and
- The role of the individual on the audit or review team.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the individual from the audit or review team; or
- Structuring the responsibilities of the audit or review team so that the assurance practitioner does not deal with matters that are within the responsibility of the immediate family member.

290.130 Threats to independence are created when a close family member of a member of the audit or review team 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.

The significance of the threats will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the individual from the audit or review team; or
- Structuring the responsibilities of the audit or review team so that the individual does not deal with matters that are within the responsibility of the close family member.

290.131 Threats to independence are created when a member of the audit or review team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or 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. A member of the audit or review team who has such a relationship shall consult in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:

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

- The role of the individual on the audit or review team.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Removing the individual from the audit or review team; or
- Structuring the responsibilities of the audit or review team so that the assurance practitioner does not deal with matters that are within the responsibility of the individual with whom the assurance practitioner has a close relationship.

290.132 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the firm who is not a member of the audit or review team and (b) a director or officer of the audit or review client or 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. Partners and employees of the firm who are aware of such relationships shall consult in accordance with firm policies and procedures. The existence and significance of any threat will depend on factors such as:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;
- The 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; and
- The position the individual holds with the client.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

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

290.133 [Deleted by the IESBA].

Employment with an Audit or Review Client

290.134 Familiarity or intimidation threats may be created if a director or officer of the audit or review client, or 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, has been a member of the audit or review team or partner of the firm.

290.135 If a former member of the audit or review team or partner of the firm has joined the audit or review client in such a position and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be deemed to

be compromised if a former member of the audit or review team or partner joins the audit or review client as a director or officer, or as 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, unless:

(a) The individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the firm; and

(b) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

290.136 If a former member of the audit or review team or partner of the firm has joined the audit or review client in such a position, and no significant connection remains between the firm and the individual, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

- 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 a member of the audit or review team or partner of the firm; and
- The former position of the individual within the audit or review team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Modifying the audit or review plan;
- Assigning individuals to the audit or review team who have sufficient experience in relation to the individual who has joined the client; or
- Having another assurance practitioner review the work of the former member of the audit or review team.

290.137 If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an audit or review client of the firm, the significance of any threat to independence shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

290.138 A self-interest threat is created when a member of the audit or review team participates in the audit or review engagement while knowing that the member of the audit or review team will, or may, join the client some time in the future. Firm policies and procedures shall require members of an audit or review team to notify the firm when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the individual from the audit or review team; or

- A review of any significant judgements made by that individual while on the team.

Audit or Review Clients that are Public Interest Entities

290.139 Familiarity or intimidation threats are created when a key audit partner joins the audit or review client that is a public interest entity as:

(a) A director or officer of the entity; 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.

Independence would be deemed to be compromised unless, subsequent to the partner ceasing to be a key audit partner, the public interest entity had issued audited or reviewed financial statements covering a period of not less than twelve months and the partner was not a member of the audit or review team with respect to the audit or review of those financial statements.

290.140 An intimidation threat is created when the individual who was the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit or review client that is a public interest entity as:

(a) An employee in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements; or

(b) A director or officer of the entity.

Independence would be deemed to be compromised unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

290.141 Independence is deemed not to be compromised if, as a result of a business combination, a former key audit partner or the individual who was the firm's former Senior or Managing Partner is in a position as described in paragraphs 290.139 and 290.140, 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 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;

(c) The former partner does not continue to participate or appear to participate in the firm's business or professional activities; and

(d) The position held by the former partner with the audit or review client is discussed with those charged with governance.

Temporary Staff Assignments

290.142 The lending of staff by a firm to an audit or review client may create a self-review threat. Such assistance may be given, but only for a short period of time and the firm's personnel shall not be involved in:

- Providing non-assurance services that would not be permitted under this section; or
- Assuming management responsibilities.

In all circumstances, the audit or review client shall be responsible for directing and supervising the activities of the loaned staff.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Conducting an additional review of the work performed by the loaned staff;
- Not giving the loaned staff audit or review responsibility for any function or activity that the staff performed during the temporary staff assignment; or
- Not including the loaned staff as a member of the audit or review team.

Recent Service with an Audit or Review Client

290.143 Self-interest, self-review or familiarity threats may be created if a member of the audit or review team has recently served as a director, officer, or employee of the audit or review client. This would be the case when, for example, a member of the audit or review team has to evaluate elements of the financial statements for which the member of the audit or review team had prepared the accounting records while with the client.

290.144 If, during the period covered by the audit or review report, a member of the audit or review team had served as a director or officer of the audit or review client, or 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, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the audit or review team.

290.145 Self-interest, self-review or familiarity threats may be created if, before the period covered by the audit or review report, a member of the audit or review team had served as a director or officer of the audit or review client, or 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. For example, such threats 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. The existence and significance of any threats will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level. An example of such a safeguard is conducting a review of the work performed by the individual as a member of the audit or review team.

Serving as a Director or Officer of an Audit or Review Client

290.146 [Amended by the NZAuASB. Refer to NZ290.146].

NZ290.146 If a partner or employee of the firm serves as a director or officer of an audit or review client, or as a liquidator or receiver in respect of the property of the client, or in a similar role, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director, officer, liquidator or receiver of an audit or review client.

290.147 The position of Company Secretary has different implications in different jurisdictions. Duties may 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. Generally, this position is seen to imply a close association with the entity.

290.148 If a partner or employee of the firm serves as Company Secretary for an audit or review client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level. Despite paragraph 290.146, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

290.149 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence, as long as client management makes all relevant decisions.

Long Association of Senior Personnel (Including Partner Rotation) with an Audit or Review Client

General Provisions

290.150 Familiarity and self-interest threats are created by using the same senior personnel on an audit or review engagement over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the audit or review team;
- The role of the individual on the audit or review team;
- The structure of the firm;
- The nature of the audit or review engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the senior personnel off the audit or review team;
- Having an additional assurance practitioner who was not a member of the audit or review team review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

Audit or Review Clients that are Public Interest Entities

290.151 In respect of an audit or review of a public interest entity, an individual shall not be a key audit partner for more than seven years[4]. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years. During that period, the individual shall not participate in the audit or review of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

290.152 Despite paragraph 290.151, key audit partners whose continuity is especially important to the quality of the engagement may, in rare cases due to unforeseen circumstances outside the firm's control, be permitted an additional year on the audit or review team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit or review team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

290.153 The long association of other partners with an audit or review client that is a public interest entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

- How long any such partner has been associated with the audit or review client;
- The role, if any, of the individual on the audit or review team; and
- The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the partner off the audit or review team or otherwise ending the partner's association with the audit or review client; or
- Regular independent internal or external quality reviews of the engagement.

290.154 When an audit or review client becomes a public interest entity, the length of time the individual has served the audit or review client as a key audit partner before the client

[4] In certain situations a shorter rotation period may be required in regulations (for example, NZX and Corporate Governance in New Zealand Principles and Guidelines: A Handbook for Directors, Executives and Advisers).

becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit or review client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit or review client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.

290.155 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit or review of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

Provision of Non-assurance Services to Audit or Review Clients

290.156 Firms have traditionally provided to their audit or review clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the audit or review team. The threats created are most often self-review, self-interest and advocacy threats.

290.157 New developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit or review client. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

290.158 Before the firm accepts an engagement to provide a non-assurance service to an audit or review client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the audit or review team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards, the non-assurance service shall not be provided.

290.159 [Deleted by the IESBA].

290.160 A firm may provide non-assurance services that would otherwise be restricted under this section to the following related entities of the audit or review client:

(a) An entity, which is not an audit or review client, that has direct or indirect control over the audit or review client;

(b) An entity, which is not an audit or review client, with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or

(c) An entity, which is not an audit or review client, that is under common control with the audit or review client.

If it is reasonable to conclude that (a) the services do not create a self-review threat because the results of the services will not be subject to audit or review procedures and (b) any threats that are created by the provision of such services are eliminated or reduced to an acceptable level by the application of safeguards.

290.161 A non-assurance service provided to an audit or review client does not compromise the firm's independence when the client becomes a public interest entity if:

(a) The previous non-assurance service complies with the provisions of this section that relate to audit or review clients that are not public interest entities;

(b) Services that are not permitted under this section for audit or review clients that are public interest entities are terminated before or as soon as practicable after the client becomes a public interest entity; and

(c) The firm applies safeguards when necessary to eliminate or reduce to an acceptable level any threats to independence arising from the service.

Management Responsibilities

290.162 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

290.163 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;
- Deciding which recommendations of the firm or other third parties to implement;
- Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control.

290.164 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an audit or review client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.165 If a firm were to assume a management responsibility for an audit or review client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for an audit or review client.

290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit or review client, the firm shall be satisfied that a member of management is responsible for making the significant judgements and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgements or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.

Preparing Accounting Records and Financial Statements

General Provisions

290.167 Management, with the oversight of those charged with governance, is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Originating or changing journal entries, or determining the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

290.168 Providing an audit or review client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits or reviews the financial statements.

290.169 The audit or review process, however, necessitates dialogue between the firm, management and those charged with governance of the audit or review client, which may involve:

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

These activities are considered to be a normal part of the audit or review process and do not, generally, create threats to independence.

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analysing and accumulating information

for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as New Zealand equivalents to International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit or Review Clients that are Not Public Interest Entities

290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit or review client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions for which the client has determined or approved the appropriate account classification;
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit or review team; or
- If such services are performed by a member of the audit or review team, using a partner or senior staff member with appropriate expertise who is not a member of the audit or review team to review the work performed.

Audit or Review Clients that are Public Interest Entities

290.172 Except in emergency situations, a firm shall not provide to an audit or review client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

290.173 Despite paragraph 290.172, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit or review client that is a public interest entity if the personnel providing the services are not members of the audit or review team and:

(a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or

(b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

Emergency Situations

290.174 Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit or review clients in emergency or other unusual situations when it is impractical for the audit or review client to make other arrangements. This may be the case when (a) only the firm has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements, and (b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

(a) Those who provide the services are not members of the audit or review team;

(b) The services are provided for only a short period of time and are not expected to recur; and

(c) The situation is discussed with those charged with governance.

Valuation Services

General Provisions

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

290.176 Performing valuation services for an audit or review client may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- Whether the valuation will have a material effect on the financial statements.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement.
- The availability of established methodologies and professional guidelines.
- For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
- The reliability and extent of the underlying data.
- The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the financial statements.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Having an assurance practitioner who was not involved in providing the valuation service review the audit or review or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the audit or review engagement.

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

290.178 If a firm is requested to perform a valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the provisions included in paragraph 290.191 apply.

Audit or Review Clients that are Not Public Interest Entities

290.179 In the case of an audit or review client that is not a public interest entity, if the valuation service has a material effect on the financial statements on which the firm will express an opinion and the valuation involves a significant degree of subjectivity, no safeguards could reduce the self-review threat to an acceptable level. Accordingly a firm shall not provide such a valuation service to an audit or review client.

Audit or Review Clients that are Public Interest Entities

290.180 A firm shall not provide valuation services to an audit or review client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

Taxation Services

290.181 Taxation services comprise a broad range of services, including:

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

While taxation services provided by a firm to an audit or review client are addressed separately under each of these broad headings; in practice, these activities are often interrelated.

290.182 Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as:

- The system by which the tax authorities assess and administer the tax in question and the role of the firm in that process;

- The complexity of the relevant tax regime and the degree of judgement necessary in applying it;
- The particular characteristics of the engagement; and
- The level of tax expertise of the client's employees.

Tax Return Preparation

290.183 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority deems appropriate. Accordingly, providing such services does not generally create a threat to independence if management takes responsibility for the returns including any significant judgements made.

Tax Calculations for the Purpose of Preparing Accounting Entries

Audit or Review Clients that are Not Public Interest Entities

290.184 Preparing calculations of current and deferred tax liabilities (or assets) for an audit or review client for the purpose of preparing accounting entries that will be subsequently audited or reviewed by the firm creates a self-review threat. The significance of the threat will depend on:

(a) The complexity of the relevant tax law and regulation and the degree of judgement necessary in applying them;

(b) The level of tax expertise of the client's personnel; and

(c) The materiality of the amounts to the financial statements.

Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using individuals who are not members of the audit or review team to perform the service;
- If the service is performed by a member of the audit or review team, using a partner or senior staff member with appropriate expertise who is not a member of the audit or review team to review the tax calculations; or
- Obtaining advice on the service from an external tax professional.

Audit or Review Clients that are Public Interest Entities

290.185 Except in emergency situations, in the case of an audit or review client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

290.186 The preparation of calculations of current and deferred tax liabilities (or assets) for an audit or review client for the purpose of the preparation of accounting entries, which would otherwise not be permitted under this section, may be provided to audit or review clients in emergency or other unusual situations when it is impractical for the audit or review client to make other arrangements. This may be the case when (a) only the firm has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets), and (b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

(a) Those who provide the services are not members of the audit or review team;

(b) The services are provided for only a short period of time and are not expected to recur; and

(c) The situation is discussed with those charged with governance.

Tax Planning and Other Tax Advisory Services

290.187 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

290.188 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and significance of any threat will depend on factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements;
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework;
- The level of tax expertise of the client's employees;
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to independence.

290.189 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using individuals who are not members of the audit or review team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit or review team on the service and review the financial statement treatment;
- Obtaining advice on the service from an external tax professional; or
- Obtaining pre-clearance or advice from the tax authorities.

290.190 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

(a) The audit or review team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion;

the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not provide such tax advice to an audit or review client.

290.191 In providing tax services to an audit or review client, a firm may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the financial statements, the provisions included in paragraphs 290.175 to 290.180 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax), this would not generally create threats to independence if such effect on the financial statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements, the existence and significance of any threat created will depend upon factors such as:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using individuals who are not members of the audit or review team to perform the service;
- Having an additional assurance practitioner review the audit or review work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

Assistance in the Resolution of Tax Disputes

290.192 An advocacy or self-review threat may be created when the firm represents an audit or review client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. The existence and significance of any threat will depend on factors such as:

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

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using individuals who are not members of the audit or review team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit or review team on the services and review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

290.193 Where the taxation services involve acting as an advocate for an audit or review client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements on which the firm will express an opinion, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit or review client. A "public tribunal or court" includes the Taxation Review Authority.

290.194 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or

testimony about the work performed or assisting the client in analysing the tax issues) for the audit or review client in relation to the matter that is being heard before a public tribunal or court.

Internal Audit Services

General Provisions

290.195 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit activities may include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;
- Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific enquiry into individual items including detailed testing of transactions, balances and procedures;
- Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

290.196 Internal audit services involve assisting the audit or review client in the performance of its internal audit activities. The provision of internal audit services to an audit or review client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit or review. Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm's personnel assume a management responsibility when providing internal audit services to an audit or review client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm's personnel shall not assume a management responsibility when providing internal audit services to an audit or review client.

290.197 Examples of internal audit services that involve assuming management responsibilities include:

(a) Setting internal audit policies or the strategic direction of internal audit activities;

(b) Directing and taking responsibility for the actions of the entity's internal audit employees;

(c) Deciding which recommendations resulting from internal audit activities shall be implemented;

(d) Reporting the results of the internal audit activities to those charged with governance on behalf of management;

(e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;

(f) Taking responsibility for designing, implementing and maintaining internal control; and

(g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a)–(f).

290.198 To avoid assuming a management responsibility, the firm shall only provide internal audit services to an audit or review client if it is satisfied that:

(a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;

(b) The client's management or those charged with governance review, assess and approve the scope, risk and frequency of the internal audit services;

(c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;

(d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

(e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

290.199 When a firm uses the work of an internal audit function, ISA (NZ) 610[5] requires the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit or review client, and the results of those services will be used in conducting the external audit or review, a self-review threat is created because of the possibility that the audit or review team will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The significance of the threat will depend on factors such as:

- The materiality of the related financial statement amounts;
- The risk of misstatement of the assertions related to those financial statement amounts; and
- The degree of reliance that will be placed on the internal audit service.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is using professionals who are not members of the audit or review team to perform the internal audit service.

5 ISA (NZ) 610, "Using the Work of Internal Auditors."

Audit or Review Clients that are Public Interest Entities

290.200 In the case of an audit or review client that is a public interest entity, a firm shall not provide internal audit services that relate to:

(a) A significant part of the internal controls over financial reporting;

(b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements on which the firm will express an opinion; or

(c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.

IT Systems Services

General Provisions

290.201 Services related to information technology ("IT") systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over financial reporting or generate information that affects the accounting records or financial statements, or the systems may be unrelated to the audit or review client's accounting records, the internal control over financial reporting or financial statements. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

290.202 The following IT systems services are deemed not to create a threat to independence as long as the firm's personnel do not assume a management responsibility:

(a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;

(b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements;

(c) Implementation of "off-the-shelf" accounting or financial information reporting software that was not developed by the firm if the customisation required to meet the client's needs is not significant; and

(d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service practitioner or the client.

Audit or Review Clients that are Not Public Interest Entities

290.203 Providing services to an audit or review client that is not a public interest entity involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion creates a self-review threat.

290.204 The self-review threat is too significant to permit such services unless appropriate safeguards are put in place ensuring that:

(a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

(b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;

(c) The client makes all management decisions with respect to the design and implementation process;

(d) The client evaluates the adequacy and results of the design and implementation of the system; and

(e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

290.205 Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit or review, a determination shall be made as to whether to provide such non-assurance services only with personnel who are not members of the audit or review team and who have different reporting lines within the firm. The significance of any remaining threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional assurance practitioner review the audit, review or non-assurance work.

Audit or Review Clients that are Public Interest Entities

290.206 In the case of an audit or review client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

Litigation Support Services

290.207 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval. These services may create a self-review or advocacy threat.

290.208 If the firm provides a litigation support service to an audit or review client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the valuation service provisions included in paragraphs 290.175 to 290.180 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Legal Services

290.209 For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include, depending on the jurisdiction, a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and

support and assistance to clients' internal legal departments. Providing legal services to an entity that is an audit or review client may create both self-review and advocacy threats.

290.210 Legal services that support an audit or review client in executing a transaction (for example, contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The existence and significance of any threat will depend on factors such as:

- The nature of the service;
- Whether the service is provided by a member of the audit or review team; and
- The materiality of any matter in relation to the client's financial statements.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit or review team to perform the service; or
- Having a professional who was not involved in providing the legal services provide advice to the audit or review team on the service and review any financial statement treatment.

290.211 Acting in an advocacy role for an audit or review client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit or review client.

290.212 When a firm is asked to act in an advocacy role for an audit or review client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion, the firm shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit or review team to perform the service; or
- Having a professional who was not involved in providing the legal services advise the audit or review team on the service and review any financial statement treatment.

290.213 The appointment of a partner or an employee of the firm as General Counsel for legal affairs of an audit or review client would create self-review and advocacy threats that are so significant that no safeguards could reduce the threats to an acceptable level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company, and consequently, no member of the firm shall accept such an appointment for an audit or review client.

Recruiting Services

General Provisions

290.214 Providing recruiting services to an audit or review client may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:

- The nature of the requested assistance; and
- The role of the person to be recruited.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. In all cases, the firm shall not assume management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision shall be left to the client.

The firm may generally provide such services as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post. In addition, the firm may interview candidates and advise on a candidate's competence for financial accounting, administrative or control positions.

Audit or Review Clients that are Public Interest Entities

290.215 A firm shall not provide the following recruiting services to an audit or review client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

Corporate Finance Services

290.216 Providing corporate finance services such as:

- Assisting an audit or review client in developing corporate strategies;
- Identifying possible targets for the audit or review client to acquire;
- Advising on disposal transactions;
- Assisting finance raising transactions; and
- Providing structuring advice,

may create advocacy and self-review threats. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit or review team to provide the services; or
- Having a professional who was not involved in providing the corporate finance service advise the audit or review team on the service and review the accounting treatment and any financial statement treatment.

290.217 Providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will provide an opinion may create a self-review threat. The existence and significance of any threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit or review team to perform the service; or
- Having a professional who was not involved in providing the corporate finance service to the client advise the audit or review team on the service and review the accounting treatment and any financial statement treatment.

290.218 Where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

(a) The audit or review team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion;

The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level, in which case the corporate finance advice shall not be provided.

290.219 Providing corporate finance services involving promoting, dealing in, or underwriting an audit or review client's shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not provide such services to an audit or review client.

Fees

Fees—Relative Size

290.220 When the total fees from an audit or review client represent a large proportion of the total fees of the firm expressing the audit or review opinion, the dependence on that

client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm;
- Whether the firm is well established or new; and
- The significance of the client qualitatively and/or quantitatively to the firm.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Reducing the dependency on the client;
- External quality control reviews; or
- Consulting a third party, such as a professional regulatory body or an additional assurance practitioner, on key audit judgements.

NZ290.220.1 When appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall decline or withdraw from the engagement.

290.221 A self-interest or intimidation threat is also created when the fees generated from an audit or review client represent a large proportion of the revenue from an individual partner's clients or a large proportion of the revenue of an individual office of the firm. The significance of the threat will depend upon factors such as:

- The significance of the client qualitatively and/or quantitatively to the partner or office; and
- The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Reducing the dependency on the audit or review client;
- Having an additional assurance practitioner review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.

Audit or Review Clients that are Public Interest Entities

290.222 Where an audit or review client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.27) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall disclose to those charged with governance of the audit or review client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:

- Prior to the issuance of the audit or review opinion on the second year's financial statements, another assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement or a professional regulatory body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
- After the audit or review opinion on the second year's financial statements has been issued, and before the issuance of the audit or review opinion on the third year's financial statements, another assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, or a professional regulatory body performs a review of the second year's audit or review that is equivalent to an engagement quality control review ("a post-issuance review").

When the total fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Fees—Overdue

290.223 A self-interest threat may be created if fees due from an audit or review client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit or review report for the following year. Generally the firm is expected to require payment of such fees before such audit or review report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional assurance practitioner who did not take part in the audit or review engagement provide advice or review the work performed. The firm shall determine whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed or continue the audit or review engagement.

Contingent Fees

290.224 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

290.225 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an audit or review engagement creates a self-interest threat that

is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not enter into any such fee arrangement.

290.226 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of a non-assurance service provided to an audit or review client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level if:

(a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;

(b) The fee is charged by a network firm that participates in a significant part of the audit or review and the fee is material or expected to be material to that firm; or

(c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit or review of a material amount in the financial statements.

Accordingly, such arrangements shall not be accepted.

290.227 For other contingent fee arrangements charged by a firm for a non-assurance service to an audit or review client, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the financial statements.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Having an additional assurance practitioner review the relevant audit or review work or otherwise advise as necessary; or
- Using professionals who are not members of the audit or review team to perform the non-assurance service.

Compensation and Evaluation Policies

290.228 A self-interest threat is created when a member of the audit or review team is evaluated on or compensated for selling non-assurance services to that audit or review client. The significance of the threat will depend on:

- The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;
- The role of the individual on the audit or review team; and
- Whether promotion decisions are influenced by the sale of such services.

The significance of the threat shall be evaluated and, if the threat is not at an acceptable level, the firm shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing such members from the audit or review team; or
- Having an additional assurance practitioner review the work of the member of the audit or review team.

290.229 A key audit partner shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit or review client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.

Gifts and Hospitality

290.230 Accepting gifts or hospitality from an audit or review client may create self-interest and familiarity threats. If a firm or a member of the audit or review team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Consequently, a firm or a member of the audit or review team shall not accept such gifts or hospitality.

Actual or Threatened Litigation

290.231 When litigation takes place, or appears likely, between the firm or a member of the audit or review team and the audit or review client, self-interest and intimidation threats are created. The relationship between client management and the members of the audit or review team must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

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

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- If the litigation involves a member of the audit or review team, removing that individual from the audit or review team; or
- Having an additional assurance practitioner review the work performed.

If such safeguards do not reduce the threats to an acceptable level, the only appropriate action is to withdraw from, or decline, the audit or review engagement.

Paragraphs 290.232 to 290.499 are intentionally left blank.

Reports that Include a Restriction on Use and Distribution

Introduction

290.500 The independence requirements in Section 290 apply to all audit or review engagements. However, in certain circumstances involving audit or review engagements where the report includes a restriction on use and distribution, and provided the conditions described in 290.501 to 290.502 are met, the independence requirements in this section may be modified as provided in paragraphs 290.505 to 290.514. These paragraphs are only applicable to an audit or review engagement on special purpose financial statements (a) that is intended to provide a conclusion in positive or negative form that the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework, including, in the case of a fair presentation framework, that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, and (b) where the audit or review report includes a restriction on use and distribution. The modifications are not permitted in the case of an audit or review of financial statements required by law or regulation.

290.501 The modifications to the requirements of Section 290 are permitted if the intended users of the report (a) are knowledgeable as to the purpose and limitations of the report, and (b) explicitly agree to the application of the modified independence requirements. Knowledge as to the purpose and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, and to obtain their agreement to the modified independence requirements that are to be applied.

290.502 The firm shall communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the audit or review engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the independence requirements agreed to by the representative (for example, by the representative making the firm's engagement letter available to all users).

290.503 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 provisions of paragraphs 290.500 to 290.514 do not change the requirement to apply the provisions of paragraphs 290.1 to 290.232 to that audit or review engagement.

290.504 The modifications to the requirements of Section 290 that are permitted in the circumstances set out above are described in paragraphs 290.505 to 290.514. Compliance in all other respects with the provisions of Section 290 is required.

Public Interest Entities

290.505 When the conditions set out in paragraphs 290.500 to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.232 that apply to audit or review engagements for public interest entities.

Related Entities

290.506 When the conditions set out in paragraphs 290.500 to 290.502 are met, references to audit or review client do not 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 and evaluating threats to independence and applying appropriate safeguards.

Networks and Network Firms

290.507 When the conditions set out in paragraphs 290.500 to 290.502 are met, reference to the firm does not include network firms. However, when the firm knows or has reason to believe that threats are created by any interests and relationships of a network firm, they shall be included in the evaluation of threats to independence.

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

290.508 When the conditions set out in paragraphs 290.500 to 290.502 are met, the relevant provisions set out in paragraphs 290.102 to 290.145 apply only to the members of the engagement team, their immediate family members and close family members.

290.509 In addition, a determination shall be made as to whether threats to independence are created by interests and relationships, as described in paragraphs 290.102 to 290.145, between the audit or review client and the following members of the audit or review team:

(a) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(b) Those who provide quality control for the engagement, including those who perform the engagement quality control review.

An evaluation shall be made of the significance of 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, including those who recommend the compensation of, 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)).

290.510 An evaluation shall also be made of the significance of 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 described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115.

290.511 Where a threat to independence is not at an acceptable level, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level.

290.512 In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm, if the firm has a material financial interest, whether direct or indirect, in the audit or review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such a financial interest.

Employment with an Audit or Review Client

290.513 An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 290.134 to 290.138. Where a threat exists that is not at an acceptable level, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level. Examples of safeguards that might be appropriate include those set out in paragraph 290.136.

Provision of Non-Assurance Services

290.514 If the firm conducts an engagement to issue a restricted use and distribution report for an audit or review client and provides a non-assurance service to the audit or review client, the provisions of paragraphs 290.156 to 290.232 shall be complied with, subject to paragraphs 290.504 to 290.507.

SECTION 291
INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS
CONTENTS

Structure of Section

291.1 This section addresses independence requirements for assurance engagements that are not audit or review engagements of financial statements or a single financial statement. Independence requirements for audit and review engagements are addressed in Section 290. If the assurance client is also an audit or review client, the requirements in Section 290 also apply to the firm, network firms and members of the audit or review team. In certain circumstances involving assurance engagements where the assurance report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in 291.21 to 291.27.

NZ291.1.1 Section 290 also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

291.2 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. Explanatory Guide Au1 *Overview of Auditing and Assurance Standards* describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and Standards on Assurance Engagements (SAEs) apply. For a description of the elements and objectives of an assurance engagement, refer to EG Au1.

291.3 Compliance with the fundamental principle of objectivity requires being independent of assurance clients. In the case of assurance engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of assurance teams and firms be independent of assurance clients and that any threats that the firm has reason to believe are created by a network firm's interests and relationships be evaluated. In addition, when the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

Public Interest Entities

NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that are publicly accountable or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any for-profit entity that is required or chooses to report in accordance with Tier 1 under XRB A1[6]; and

6 XRB A1 *Application of Accounting Standards.*

Any other public benefit entity[7] that applies the full financial reporting standards.

NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. 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 may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

A Conceptual Framework Approach to Independence

291.4 The objective of this section is to assist firms and members of assurance teams in applying the conceptual framework approach described below to achieving and maintaining independence.

291.5 Independence comprises:

(a) Independence of Mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.

(b) Independence in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the assurance team's, integrity, objectivity or professional scepticism has been compromised.

291.6 The conceptual framework approach shall be applied by assurance practitioners to:

- Identify threats to independence;
- Evaluate the significance of the threats identified; and
- Apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level.

When the assurance practitioner determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall eliminate the circumstance or relationship creating the threats or decline or terminate the assurance engagement.

An assurance practitioner shall use professional judgement in applying this conceptual framework.

7 XRB A1 for Tier 1 public benefit entities will only be finalised in 2014/2015. It is the intention of the NZAuASB that all Tier 1 entities will meet the definition of a public interest entity, or the purposes of this standard.

291.7 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of assurance teams to identify, evaluate, and address threats to independence. The conceptual framework approach assists assurance practitioners in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence and can deter an assurance practitioner from concluding that a situation is permitted if it is not specifically prohibited.

291.8 Paragraphs 291.100 and onwards describe how the conceptual framework approach to independence is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence.

291.9 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the assurance team, a firm shall identify and evaluate any threats to independence. If the threats are not at an acceptable level, and the decision is whether to accept an engagement or include a particular individual on the assurance team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.

291.10 Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.

NZ291.10.1 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.

291.11 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organisation of a firm. The firm is required by Professional and Ethical Standard 3 to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical standards.

Assurance Engagements

291.12 In an assurance engagement the assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria.

291.13 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term "subject matter information" is used to mean the outcome of the evaluation or measurement of a subject matter. For example, an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO[8] or CoCo[9] (criteria), to internal control, a process (subject matter).

291.14 Assurance engagements may be assertion-based or direct reporting. In either case, they involve three separate parties: an assurance practitioner, a responsible party and intended users.

291.15 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

291.16 In a direct reporting assurance engagement, the assurance practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

Assertion-based Assurance Engagements

291.17 In an assertion-based assurance engagement, the members of the assurance team and the firm shall be independent of the assurance client (the party responsible for the subject matter information, and which may be responsible for the subject matter). Such independence requirements prohibit certain relationships between members of the assurance team and (a) directors or officers, and (b) individuals at the client in a position to exert significant influence over the subject matter information. Also, a determination shall be made as to whether threats to independence are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. An evaluation shall be made of the significance of any threats that the firm has reason to believe are created by network firm[10] interests and relationships.

291.18 In the majority of assertion-based assurance engagements, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party may not be responsible for the subject matter. For example, when an assurance practitioner is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users, the environmental

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[8] "Internal Control – Integrated Framework" The Committee of Sponsoring Organizations of the Treadway Commission.

[9] "Guidance on Assessing Control – The CoCo Principles" Criteria of Control Board, The Canadian Institute of Chartered Accountants.

[10] See paragraphs 290.13 to 290.24 for guidance on what constitutes a network firm.

consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

291.19 In assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, the members of the assurance team and the firm shall be independent of the party responsible for the subject matter information (the assurance client). In addition, an evaluation shall be made of any threats the firm has reason to believe are created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

291.20 In a direct reporting assurance engagement, the members of the assurance team and the firm shall be independent of the assurance client (the party responsible for the subject matter). An evaluation shall also be made of any threats the firm has reason to believe are created by network firm interests and relationships.

Reports that Include a Restriction on Use and Distribution

291.21 In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the independence requirements in this section may be modified. The modifications to the requirements of Section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence requirements. Knowledge as to the purpose, subject matter information, and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, and to obtain their agreement to the modified independence requirements that are to be applied.

291.22 The firm shall communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the assurance engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the independence requirements agreed to by the representative (for example, by the representative making the firm's engagement letter available to all users).

291.23 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 291.25 to 291.27 do not change the requirement to apply the provisions of paragraphs 291.1 to 291.159 to that assurance engagement. If the firm also issues an audit or review report, whether or not

it includes a restriction on use and distribution, for the same client, the provisions of Section 290 shall apply to that audit or review engagement.

291.24 The modifications to the requirements of Section 291 that are permitted in the circumstances set out above are described in paragraphs 291.25 to 291.27. Compliance in all other respects with the provisions of Section 291 is required.

291.25 When the conditions set out in paragraphs 291.21 and 291.22 are met, the relevant provisions set out in paragraphs 291.104 to 291.134 apply to all members of the engagement team, and their immediate and close family members. In addition, a determination shall be made as to whether threats to independence are created by interests and relationships between the assurance client and the following other members of the assurance team:

- Those who provide consultation regarding technical or industry specific issues, transactions or events; and
- Those who provide quality control for the engagement, including those who perform the engagement quality control review.

An evaluation shall also be made, by reference to the provisions set out in paragraphs 291.104 to 291.134, of any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, including those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

291.26 Even though the conditions set out in paragraphs 291.21 to 291.22 are met, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such a financial interest. In addition, the firm shall comply with the other applicable provisions of this section described in paragraphs 291.113 to 291.159.

291.27 An evaluation shall also be made of any threats that the firm has reason to believe are created by network firm interests and relationships.

NZ291.27.1 When the conditions set out in paragraphs 291.21 and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.100 to 291.159 that apply to assurance engagements for public interest entities.

Multiple Responsible Parties

291.28 In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the firm determines that the threat to independence created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it may not be necessary to apply all of the provisions of this section to that responsible party.

Documentation

291.29 Documentation provides evidence of the assurance practitioner's judgements in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether a firm considered a particular matter nor whether it is independent.

The assurance practitioner shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

(a) When safeguards are required to reduce a threat to an acceptable level, the assurance practitioner shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and

(b) When a threat required significant analysis to determine whether safeguards were necessary and the assurance practitioner concluded that they were not because the threat was already at an acceptable level, the assurance practitioner shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

291.30 Independence from the assurance client is required both during the engagement period and the period covered by the subject matter information. The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final assurance report.

291.31 When an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

- Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- Previous services provided to the assurance client.

291.32 If a non-assurance service was provided to the assurance client during or after the period covered by the subject matter information but before the assurance team begins to perform assurance services and the service would not be permitted during the period of the assurance engagement, the firm shall evaluate any threat to independence created by

the service. If any threat is not at an acceptable level, the assurance engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- Not including personnel who provided the non-assurance service as members of the assurance team;
- Having an additional assurance practitioner review the assurance and non-assurance work as appropriate; or
- 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 it to take responsibility for the service.

However, if the non-assurance service has not been completed and it is not practical to complete or terminate the service before the commencement of assurance services in connection with the assurance engagement, the firm shall only accept the assurance engagement if it is satisfied:

- The non-assurance service will be completed within a short period of time; or
- The client has arrangements in place to transition the service to another practitioner within a short period of time.

During the service period, safeguards shall be applied when necessary. In addition, the matter shall be discussed with those charged with governance.

Breach of a Provision of this Section

291.33-291.37 [Amended by the NZAuASB. Refer to NZ 291.33- NZ 291.43 below].

NZ291.33 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of such a breach may be that termination of the assurance engagement is necessary.

NZ291.34 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

NZ291.35 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a professional body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.

NZ291.36 When a breach is identified, the firm shall in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The significance of the breach 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 assurance engagement;
- Whether a member of the assurance team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the assurance team or another individual for whom there are independence requirements;
- If the breach relates to a member of the assurance team, the role of that individual;
- If the breach was caused by the provision of a professional service, the impact of that service, if any, on the subject matter or subject matter information on which the firm will express an opinion; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

NZ291.37 Depending upon the significance of the breach, it may be necessary to terminate the assurance engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine 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, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an assurance report.

NZ291.38 Examples of actions that the firm might consider include:

- Removing the relevant individual from the assurance team;
- Conducting an additional review of the affected assurance work or re-performing that work to the extent necessary, in either case using different personnel;
- Recommending that the assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary; and
- Where the breach relates to a non-assurance service that affects the subject matter or subject matter information, 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 it to take responsibility for the service.

NZ291.39 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

NZ291.40 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken

or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches. The matters to be discussed shall include:

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

NZ291.41 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph NZ291.40 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. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

NZ291.42 If the breach occurred prior to the issuance of the previous assurance report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an assurance report in the current period. The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued assurance reports, and the possibility of withdrawing such assurance reports, and discuss the matter with those charged with governance.

NZ291.43 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a professional body, relevant regulator or oversight authority. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.

Paragraphs 291.44 to 291.99 are intentionally left blank.

Application of the Conceptual Framework Approach to Independence

291.100 Paragraphs 291.104 to 291.159 describe specific circumstances and relationships that create or may create threats to independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and identify certain situations where no safeguards could reduce the threats to an acceptable level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence. The firm and the members of the assurance team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.11 to 200.14 can be applied when necessary to eliminate the threats to independence or reduce them to an acceptable level.

291.101 The paragraphs demonstrate how the conceptual framework approach applies to assurance engagements and are to be read in conjunction with paragraph 291.28 which explains that, in the majority of assurance engagements, there is one responsible party and that responsible party is the assurance client. However, in some assurance engagements there are two or more responsible parties. In such circumstances, an evaluation shall be made of any threats the firm has reason to believe are created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter. For assurance reports that include a restriction on use and distribution, the paragraphs are to be read in the context of paragraphs 291.21 to 291.27.

291.102 Interpretation 2005-01 provides further guidance on applying the independence requirements contained in this section to assurance engagements.

291.103 Paragraphs 291.104 to 291.120 contain references to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of 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.

Financial Interests

291.104 Holding a financial interest in an assurance client may create a self-interest threat. The existence and significance of any threat created depends on:

(a) The role of the person holding the financial interest,

(b) Whether the financial interest is direct or indirect, and

(c) The materiality of the financial interest.

291.105 Financial interests may be held through an intermediary (for example, a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the

investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.

291.106 If a member of the assurance team, a member of that individual's immediate family, or a firm has a direct financial interest or a material indirect financial interest in the assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the assurance team; a member of that individual's immediate family member; or the firm.

291.107 When a member of the assurance team has a close family member who the assurance team member knows has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat is created. The significance of the threat will depend on factors such as

- The nature of the relationship between the member of the assurance team and the close family member; and
- The materiality of the financial interest to the close family member.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;
- Having an additional assurance practitioner review the work of the member of the assurance team; or
- Removing the individual from the assurance team.

291.108 If a member of the assurance team, a member of that individual's immediate family, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the assurance client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have such a financial interest: a member of the assurance team; a member of that individual's immediate family; and the firm.

291.109 The holding by a firm or a member of the assurance team, or a member of that individual's immediate family, of a direct financial interest or a material indirect financial interest in the assurance client as a trustee creates a self-interest threat. Such an interest shall not be held unless:

(a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;

(b) The interest in the assurance client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the assurance client; and

(d) The trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the assurance client.

291.110 Members of the assurance team shall determine whether a self-interest threat is created by any known financial interests in the assurance client held by other individuals including:

- Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and
- Individuals with a close personal relationship with a member of the assurance team.

Whether these interests create a self-interest threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the member of the assurance team with the personal relationship from the assurance team;
- Excluding the member of the assurance team from any significant decision-making concerning the assurance engagement; or
- Having an additional assurance practitioner review the work of the member of the assurance team.

291.111 If a firm, a member of the assurance team, or an immediate family member of the individual, receives a direct financial interest or a material indirect financial interest in an assurance client, for example, by way of an inheritance, gift or as a result of a merger, and such interest would not be permitted to be held under this section, then:

(a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, or

(b) If the interest is received by a member of the assurance team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material.

291.112 [Deleted by the IESBA].

Loans and Guarantees

291.113 A loan, or a guarantee of a loan, to a member of the assurance team, or a member of that individual's immediate family, or the firm from an assurance client that is a bank or a similar institution, may create a threat to independence. If the loan or guarantee is

not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither a member of the assurance team, a member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.

291.114 If a loan to a firm from an assurance client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the assurance client or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by an additional assurance practitioner from a network firm that is neither involved with the assurance engagement nor received the loan.

291.115 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution to a member of the assurance team, or a member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

291.116 If the firm or a member of the assurance team, or a member of that individual's immediate family, accepts a loan from, or has a borrowing guaranteed by, an assurance client that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm, or the member of the assurance team and the immediate family member, and the client.

291.117 Similarly, if the firm, or a member of the assurance team, or a member of that individual's immediate family, makes or guarantees a loan to an assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm, or the member of the assurance team and the immediate family member, and the client.

291.118 If a firm or a member of the assurance team, or a member of that individual's immediate family, has deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.

Business Relationships

291.119 A close business relationship between a firm, or a member of the assurance team, or a member of that individual's immediate family, and the assurance client or its management arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships 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 with one or more services or products of the client and to market the package with reference to both parties.

- Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or shall be reduced to an insignificant level or terminated.

In the case of a member of the assurance team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the assurance team.

If the business relationship is between an immediate family member of a member of the assurance team and the assurance client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

291.120 The purchase of goods and services from an assurance client by the firm, or a member of the assurance team, or a member of that individual's immediate family, does not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the assurance team.

Family and Personal Relationships

291.121 Family and personal relationships between a member of the assurance team and a director or officer or certain employees (depending on their role) of the assurance client, may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the assurance team, the role of the family member or other individual within the client, and the closeness of the relationship.

291.122 When an immediate family member of a member of the assurance team is:

(a) A director or officer of the assurance client, or

(b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement,

or was in such a position during any period covered by the engagement or the subject matter information, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable

level. Accordingly, no individual who has such a relationship shall be a member of the assurance team.

291.123 Threats to independence are created when an immediate family member of a member of the assurance team is an employee in a position to exert significant influence over the subject matter of the engagement. The significance of the threats will depend on factors such as:

- The position held by the immediate family member; and
- The role of the individual on the assurance team.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the individual from the assurance team; or
- Structuring the responsibilities of the assurance team so that the individual does not deal with matters that are within the responsibility of the immediate family member.

291.124 Threats to independence are created when a close family member of a member of the assurance team is:

- A director or officer of the assurance client; or
- An employee in a position to exert significant influence over the subject matter or subject matter information of the assurance engagement.

The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the assurance team and the close family member;
- The position held by the close family member; and
- The role of the professional on the assurance team.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the individual from the assurance team; or
- Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member.

291.125 Threats to independence are created when a member of the assurance team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the subject matter information of the assurance engagement. A member of the assurance team who has such a relationship shall consult in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:

- The nature of the relationship between the individual and the member of the assurance team;
- The position the individual holds with the client; and
- The role of the individual on the assurance team.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Removing the individual from the assurance team; or
- Structuring the responsibilities of the assurance team so that the assurance practitioner does not deal with matters that are within the responsibility of the individual with whom the assurance practitioner has a close relationship.

291.126 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the firm who is not a member of the assurance team and (b) a director or officer of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement. The existence and significance of any threat will depend on factors such as:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;
- The interaction of the partner or employee of the firm with the assurance team;
- The position of the partner or employee within the firm; and
- The role of the individual within the client.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement; or
- Having an additional assurance practitioner review the relevant assurance work performed.

291.127 [Deleted by the IESBA].

Employment with Assurance Clients

291.128 Familiarity or intimidation threats may be created if a director or officer of the assurance client, or an employee who is in a position to exert significant influence over the subject matter or subject matter information of the assurance engagement, has been a member of the assurance team or partner of the firm.

291.129 If a former member of the assurance team or partner of the firm has joined the assurance client in such a position, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

(a) The position the individual has taken at the client;

(b) Any involvement the individual will have with the assurance team;

(c) The length of time since the individual was a member of the assurance team or partner of the firm; and

(d) The former position of the individual within the assurance team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

In all cases the individual shall not continue to participate in the firm's business or professional activities.

The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm;
- Modifying the plan for the assurance engagement;
- Assigning individuals to the assurance team who have sufficient experience in relation to the individual who has joined the client; or
- Having another assurance practitioner review the work of the former member of the assurance team.

291.130 If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an assurance client of the firm, the significance of any threats to independence shall be evaluated and safeguards applied when necessary, to eliminate the threat or reduce it to an acceptable level.

291.131 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing that the member of the assurance team will, or may, join the client some time in the future. Firm policies and procedures shall require members of an assurance team to notify the firm when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the individual from the assurance team; or
- A review of any significant judgements made by that individual while on the team.

Temporary Staff Assignments

NZ291.131.1 The lending of staff by a firm to an assurance client may create a self-review threat. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team

had prepared while with the client. Such assistance may be given, but the firm's personnel shall not be involved in:

- Providing non-assurance services that would not be permitted under this section; or
- Assuming management responsibilities in a position which would give the loaned staff significant influence over the subject matter on which the firm will express an opinion.

In all circumstances, the assurance client shall be responsible for directing and supervising the activities of the loaned staff.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Conducting an additional review of the work performed by the loaned staff;
- Not giving the loaned staff responsibility for any function or activity that the staff performed during the temporary staff assignment; or
- Not including the loaned staff as a member of the assurance team.

Recent Service with an Assurance Client

291.132 Self-interest, self-review or familiarity threats may be created if a member of the assurance team has recently served as a director, officer, or employee of the assurance client. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client.

291.133 If, during the period covered by the assurance report, a member of the assurance team had served as director or officer of the assurance client, or was an employee in a position to exert significant influence over the subject matter or subject matter information of the assurance engagement, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the assurance team.

291.134 Self-interest, self-review or familiarity threats may be created if, before the period covered by the assurance report, a member of the assurance team had served as director or officer of the assurance client, or was an employee in a position to exert significant influence over the subject matter or subject matter information of the assurance engagement. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement. The existence and significance of any threats will depend on factors such as:

- The position the individual held with the client;
- The length of time since the individual left the client; and
- The role of the individual on the assurance team.

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level. An example of such a safeguard is conducting a review of the work performed by the individual as part of the assurance team.

Serving as a Director or Officer of an Assurance Client

291.135 If a partner or employee of the firm serves a director or officer of an assurance client, the self-review and self-interest threats would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an assurance client.

291.136 The position of Company Secretary has different implications in different jurisdictions. Duties may 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 regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

291.137 If a partner or employee of the firm serves as Company Secretary for an assurance client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level. Despite paragraph 291.135, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

291.138 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence, as long as client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance Clients

General Provisions

291.139 Familiarity and self-interest threats are created by using the same senior personnel on an assurance engagement over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the assurance team;
- The role of the individual on the assurance team;
- The structure of the firm;
- The nature of the assurance engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the subject matter or subject matter information has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the senior personnel off the assurance team;
- Having an additional assurance practitioner who was not a member of the assurance team review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

Assurance Clients that are Public Interest Entities

NZ291.139.1 In respect of an assurance engagement for a public interest entity, an individual shall not be a key assurance partner for more than seven years. After such time, the individual shall not be a member of the engagement team or be a key assurance partner for the client for two years. During that period, the individual shall not participate in the assurance engagement of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

NZ291.139.2 Despite paragraph NZ291.139.1, key assurance partners whose continuity is especially important to the quality of the engagement may, in rare cases due to unforeseen circumstances outside the firm's control, be permitted an additional year on the assurance team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain on the assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

NZ291.139.3 The long association of other partners with an assurance client that is a public interest entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

- How long any such partner has been associated with the assurance client;
- The role, if any, of the individual on the assurance team; and
- The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the partner off the assurance team or otherwise ending the partner's association with the assurance client; or
- Regular independent internal or external quality reviews of the engagement.

NZ291.139.4 When an assurance client becomes a public interest entity, the length of time the individual has served the assurance client as a key assurance partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the assurance client as a key assurance partner for five years or less when the client becomes a public interest entity, the number of

years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the assurance client as a key assurance partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.

NZ291.139.5 When a firm has only a few people with the necessary knowledge and experience to serve as a key assurance partner on the assurance engagement of a public interest entity, rotation of key assurance partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key assurance partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

Provision of Non-assurance Services to Assurance Clients

291.140 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the assurance team. The threats created are most often self-review, self-interest and advocacy threats.

291.141 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

291.142 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the assurance team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards the non-assurance service shall not be provided.

Management Responsibilities

291.143 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

291.144 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;

- Deciding which recommendations of the firm or other third parties to implement; and
- Taking responsibility for designing, implementing and maintaining internal control.

291.145 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an assurance client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

291.146 Assuming a management responsibility for an assurance client may create threats to independence. If a firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, in providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm assumes a management responsibility as part of any other services provided to the assurance client, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.

291.147 To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement, the firm shall be satisfied that a member of management is responsible for making the significant judgements and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgements or decisions on behalf of management. This risk is further reduced when the firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.

Other Considerations

291.148 Threats to independence may be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, an evaluation of the significance of the firm's involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level can be reduced to an acceptable level by the application of safeguards.

291.149 A self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared greenhouse gas information and subsequently provided assurance on this information. Consequently, the firm shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

291.150 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement, the firm shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

Assurance Clients that are Public Interest Entities

NZ291.150.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.

NZ291.150.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.

NZ291.150.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

Fees

Fees—Relative Size

291.151 When the total fees from an assurance client represent a large proportion of the total fees of the firm expressing the conclusion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm;
- Whether the firm is well established or new; and
- The significance of the client qualitatively and/or quantitatively to the firm.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Reducing the dependency on the client;
- External quality control reviews; or
- Consulting a third party, such as a professional regulatory body or an additional assurance practitioner, on key assurance judgements.

NZ291.151.1 When appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall decline or withdraw from the engagement.

291.152 A self-interest or intimidation threat is also created when the fees generated from an assurance client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional assurance practitioner who was not a member of the assurance team review the work or otherwise advise as necessary.

Assurance Clients that are Public Interest Entities

NZ291.152.1 Where an assurance client is a public interest entity and, for two consecutive years, the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm, the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:

- Prior to the issuance of the second year's opinion, another assurance practitioner, who is not a member of the firm expressing the conclusion, performs an engagement quality control review of that engagement ("a pre-issuance review"); or
- After the second year's opinion has been issued, and before the issuance of the conclusion on the third year's opinion, another assurance practitioner, who is not a member of the firm, performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review").

When the total fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Fees—Overdue

291.153 A self-interest threat may be created if fees due from an assurance client remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally the firm is expected to require payment of such fees before any such report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional assurance practitioner who did not take part in the assurance engagement provide advice or review the work performed. The firm shall determine whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the

significance of the overdue fees, it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Contingent Fees

291.154 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. For the purposes of this section, fees are not regarded as being contingent if established by a court or other public authority.

291.155 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an assurance engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not enter into any such fee arrangement.

291.156 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of a non-assurance service provided to an assurance client may also create a self-interest threat. If the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement, no safeguards could reduce the threat to an acceptable level. Accordingly, such arrangements shall not be accepted.

291.157 For other contingent fee arrangements charged by a firm for a non-assurance service to an assurance client, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the subject matter information.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Having an assurance practitioner review the relevant assurance work or otherwise advise as necessary; or
- Using professionals who are not members of the assurance team to perform the non-assurance service.

Gifts and Hospitality

291.158 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. If a firm or a member of the assurance team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Consequently, a firm or a member of the assurance team shall not accept such gifts or hospitality.

Actual or Threatened Litigation

291.159 When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client, self-interest and intimidation threats are created. The relationship between client management and the members of the assurance team must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

- The materiality of the litigation; and
- Whether the litigation relates to a prior assurance engagement.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- If the litigation involves a member of the assurance team, removing that individual from the assurance team; or
- Having an additional assurance practitioner review the work performed.

If such safeguards do not reduce the threats to an acceptable level, the only appropriate action is to withdraw from, or decline, the assurance engagement.

Interpretation 2005-01 (Revised July 2009 to conform to changes resulting from the IESBA's project to improve the clarity of the Code)

Application of Section 291 to Assurance Engagements that are Not Financial Statement Audit or Review Engagements

This interpretation provides guidance on the application of the independence requirements contained in Section 291 to assurance engagements that are not financial statement audit or review engagements.

This interpretation focuses on the application issues that are particular to assurance engagements that are not financial statement audit or review engagements. There are other matters noted in Section 291 that are relevant in the consideration of independence requirements for all assurance engagements. For example, paragraph 291.3 states that an evaluation shall be made of any threats the firm has reason to believe are created by a network firm's interests and relationships. It also states that when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team shall include the related entity when evaluating threats to independence and when necessary applying safeguards. These matters are not specifically addressed in this interpretation.

In an assurance engagement, the assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Assertion-Based Assurance Engagements

In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In an assertion-based assurance engagement independence is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

In those assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, independence is required from the responsible party. In addition, an evaluation shall be made of any threats the firm has reason to believe are created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

In a direct reporting assurance engagement, the assurance practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

In a direct reporting assurance engagement independence is required from the responsible party, which is responsible for the subject matter.

Multiple Responsible Parties

In both assertion-based assurance engagements and direct reporting assurance engagements there may be several responsible parties. For example, an assurance practitioner may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based assurance engagement where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement, where there is no assertion and there may or may not be a written representation from the newspapers.

In such engagements, when determining whether it is necessary to apply the provisions in Section 291 to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This will take into account:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest that is associated with the engagement.

If the firm determines that the threat to independence created by any such relationships with a particular responsible party would be trivial and inconsequential it may not be necessary to apply all of the provisions of this section to that responsible party.

Example

The following example has been developed to demonstrate the application of Section 291. It is assumed that the client is not also a financial statement audit or review client of the firm, or a network firm.

A firm is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the assurance practitioner determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands of barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
Total	**104,301**

The engagement could be structured in differing ways:

Assertion-Based Engagements

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

Direct Reporting Engagements

D1 Each company measures the reserves and provides the firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

D2 The firm directly measures the reserves of some of the companies.

Application of Approach

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 291.28.)

For example Company 8 accounts for 0.17% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties that would be considered to be the assurance client (paragraph 291.28).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

The firm shall be independent of the entity that measures the reserves and provides an assertion to the firm and to intended users (paragraph 291.19). That entity is not responsible for the subject matter and so an evaluation shall be made of any threats the firm has reason to believe are created by interests/relationships with the party responsible for the subject matter (paragraph 291.19). There are several parties responsible for the subject matter in this engagement (Companies 1-10). As discussed in example A1 above, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level.

D1 Each company provides the firm with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 291.28).

For example, Company 8 accounts for 0.17% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm shall be independent of those responsible parties that would be considered to be the assurance client (paragraph 291.28).

D2 The firm directly measures the reserves of some of the companies.

The application is the same as in example D1.

PART C—PROFESSIONAL ACCOUNTANTS IN BUSINESS

[Deleted by the NZAuASB].

DEFINITIONS

In this *Code of Ethics for Assurance Practitioners* the following expressions have the following meanings assigned to them:

Acceptable level	A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the assurance practitioner at that time, that compliance with the fundamental principles is not compromised.
Advertising	The communication to the public of information as to the services or skills provided by assurance practitioners with a view to procuring assurance business.
[NZ] Assurance client	An entity in respect of which a firm conducts an assurance engagement.
Assurance engagement	An engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (For guidance on assurance engagements see Explanatory Guide Au1 *Overview of Auditing and Assurance Standards* which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (New Zealand) (ISAs (NZ)), Review Standard 1 (RS-1) and International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) apply.)
[NZ] Assurance practitioner	A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements.
[NZ] Assurance services	Comprise of any assurance engagements performed by an assurance practitioner.

[NZ] Assurance team	(a) All members of the engagement team for the assurance engagement; (b) All others within a firm who can directly influence the outcome of the assurance engagement, including: (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and (iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.
Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is an issuer, audit client will always include its related entities. When the audit client is not an issuer, audit client includes those related entities over which the client has direct or indirect control.
Audit engagement	A reasonable assurance engagement in which an assurance practitioner expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects,), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing (New Zealand). This includes a Statutory Audit, which is an audit required by legislation or other regulation.
Audit team	(a) All members of the engagement team for the audit engagement; (b) All others within a firm who can directly influence the outcome of the audit engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

(c) All those within a network firm who can directly influence the outcome of the audit engagement.

Close family	A parent, non-dependent child or sibling.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	A financial interest: • Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or • Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title.
Engagement partner[11]	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgements the engagement team made and the conclusions it reached in formulating the report.
Engagement team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.
Existing accountant	An accountant currently holding an audit appointment or carrying out accounting, taxation, consulting or similar non-assurance services for a client.

[11] "Engagement partner: should be read as referring to their public sector equivalents where relevant.

External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the assurance practitioner in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	(a) A sole practitioner, partnership or corporation undertaking assurance engagements; (b) An entity that controls such parties, through ownership, management or other means; and (c) An entity controlled by such parties, through ownership, management or other means.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.

Independence	Independence is: (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, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.
Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
[NZ] Issuer	All issuers, as defined by the Securities Act 1978 or any other Act, irrespective of size.
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" may include, for example, audit partners responsible for significant subsidiaries or divisions.
[NZ] Key assurance partner	The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.
Listed entity	[*Deleted by the NZAuASB*].
Network	A larger structure: (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 policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to a network.
[NZ] Offer document	A document, such as a prospectus, required by legislation to be prepared by an Issuer when securities are offered to the public.

Office	A distinct sub-group, whether organised on geographical or practice lines.
Professional accountant	[*Deleted by the NZAuASB*].
Professional accountant in business	[*Deleted by the NZAuASB*].
Professional accountant in public practice	[*Deleted by the NZAuASB*].
Professional activity	An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, taxation, management consulting, and financial management.
Professional services	Professional activities performed for clients.
[NZ] Public benefit entity	A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
[NZ] Public interest entity	• Any for-profit entity that is required or chooses to report in accordance with Tier 1 under XRB A1[12]; and • Any other public benefit entity[13] that applies the full financial reporting standards.

12 XRB A1 *Application of Accounting Standards.*

13 XRB A1 for Tier 1 public benefit entities will only be finalised in 2014/2015. It is the intention of the NZAuASB that all Tier 1 entities will meet the definition of a public interest entity, or the purposes of this standard.

Related entity	An entity that has any of the following relationships with the client: (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with Review Standard 1 (RS 1), in which an assurance practitioner expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	(a) All members of the engagement team for the review engagement; and (b) All others within a firm who can directly influence the outcome of the review engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and (c) All those within a network firm who can directly influence the outcome of the review engagement.

Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Those charged with governance	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

EFFECTIVE DATE

The Code is effective on 1 January 2014; early adoption is permitted.

The Code is subject to the following transitional provisions:

Public Interest Entities

1. Section 290 and 291 of the Code contains additional independence provisions when the assurance client is a public interest entity. The additional provisions that are applicable because of the new definition of a public interest entity or the guidance in paragraph 290.26 or NZ291.3.2 are effective on 1 January 2015. For partner rotation requirements, the transitional provisions contained in paragraphs 2 and 3 below apply.

Partner Rotation

NZ2. For a partner who is subject to the rotation provisions in paragraph 290.151 or NZ291.139.1 because the partner meets the definition of the new term "key audit partner," or "key assurance partner" and the partner is not the engagement partner, the rotation provisions are effective for assurance engagements for years beginning on or after 1 January 2015. For example, in the case of an audit client with a calendar year-end, a key audit partner, who is not the engagement partner, who had served as a key audit partner for seven or more years (that is, the audits of 2006 – 2013), would be required to rotate after serving for one more year as a key audit partner (that is, after completing the 2014 audit).

NZ3. For an engagement partner who immediately prior to assuming that role served in another key audit partner role or key assurance partner role for the client, and who, at the beginning of the first fiscal year beginning on or after 1 January 2014, had served in that role of the engagement partner for six or fewer years, the rotation provisions are effective for assurance engagements for years beginning on or after 1 January 2015. For example, in the case of an audit client with a calendar year-end, a partner who had served the client in another key audit partner role for four years (that is, the audits of 2005-2008) and subsequently as the engagement partner for five years (that is, the audits of 2009-2013) would be required to rotate after serving for one more year as the engagement partner (that is, after completing the 2014 audit).

Non-assurance services

4. Paragraphs 290.156-290.219 address the provision of non-assurance services to an audit or review client. If, at the effective date of the Code, services are being provided to an audit or review client and the services were permissible under Professional and Ethical Standard 2 but are either prohibited or subject to restrictions under the revised Code, the firm may continue providing such services only if they were contracted for and commenced prior to 1 January 2014, and are completed before 1 July 2014.

Fees – Relative Size

5. Paragraph 290.222 provides that, in respect of an audit or review client that is a public interest entity, when the total fees from that client and its related entities (subject to the considerations in paragraph 290.27) for two consecutive years represent more than 15% of the total fees of the firm expressing the opinion on the financial statements, a pre- or post-issuance review (as described in paragraph 290.222) of the second year's audit shall be performed. This requirement is effective for audits or reviews of financial statements covering years that begin on or after 1 January 2014. For example, in the case of an audit client with a calendar year end, if the total fees from the client exceeded the 15% threshold

for 2014 and 2015, the pre- or post-issuance review would be applied with respect to the audit of the 2015 financial statements.

Compensation and Evaluation Policies

6. Paragraph 290.229 provides that a key audit partner shall not be evaluated or compensated based on that partner's success in selling non-assurance services to the partner's audit or review client. This requirement is effective on 1 January 2015. A key audit partner may, however, receive compensation after January 1, 2015 based on an evaluation made prior to January 1, 2015 of that partner's success in selling non-assurance services to the audit or review client.

Conflicts of Interest

NZ7. Section 220 deals with Conflicts of Interest. Section 220 is effective on 1 July 2014. Early adoption is permitted.

Breach of a Provision

NZ8. Paragraphs 290.39-290.49 and NZ291.33-NZ291.43 contain provisions with which an assurance practitioner shall comply if the assurance practitioner identifies a breach of an independence provision. These paragraphs are effective on 1 April 2014. Early adoption is permitted.

WITHDRAWAL OF PES 1 AND PES 2

This standard supersedes PES 1 *Ethical Standards for Assurance Practitioners Practitioners* (as issued in July 2011) and PES 2 *Independence in Assurance Engagements* (as issued in July 2011).

ACCOMPANYING ATTACHMENT: SIMILARITY TO THE INTERNATIONAL AND AUSTRALIAN CODE OF ETHICS

This conformity statement accompanies but is not part of PES 1 (Revised).

PES 1 (Revised) incorporates Part A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board of Accountants published by the International Federation of Accountants (IFAC).

The principles and requirements of PES 1 are consistent with the IFAC Code except for the following:

- The addition of a scope and application section. PES 1 (Revised) has a narrower scope and is meant to apply to all assurance practitioners appointed or engaged to perform an assurance engagement. The IFAC Code applies to all professional accountants. Part B of the IFAC Code applies to professional accountants in public practice.
- PES 1 (Revised) refers to assurance practitioners whereas the IFAC Code refers to professional accountants. Section 230 *Second Opinions* has been deleted by the NZAuASB as it does not relate to assurance engagements. Part C of the IFAC Code, that applies to professional accountants in business has not been included in PES 1 (Revised);
- The addition of paragraphs and definitions prefixed as NZ in PES 1 (Revised). The additional definitions are of assurance services, assurance practitioner, issuer, key assurance partner, offer document and public benefit entity;

- PES 1 (Revised) tailors the following IFAC defined terms in the New Zealand environment: assurance client, assurance team and public interest entity;
- NZ220.10.1 requires the assurance practitioner to disclose the nature of the conflict of interest and the related safeguards applied to eliminate the threat or reduce it to an acceptable level to all clients or potential clients affected by the conflict. It also requires the assurance practitioner to obtain the clients consent to perform the assurance services when safeguards are applied. The IFAC Code states that disclosure is generally necessary.
- NZ220.14 requires an assurance practitioner to disengage from the relevant assurance engagement if adequate disclosure to the client of a conflict of interest is restricted as a result of confidentiality requirements. The IFAC Code allows the engagement to proceed in limited circumstances.

Independence requirements

- Section 290 describes the independence requirements for audits and reviews of historical financial information. NZ2901.1 extends the scope of section 290 to cover all assurance engagements in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma financial information or a combination of these.
- For the purposes of the IFAC Code and the Australian Code of Ethics for Professional Accountants, public interest entities (PIE) include: a listed entity, an entity defined by regulation or legislation as a public interest entity or an entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

  The Australian Code of Ethics for Professional Accountants also requires firms to determine whether to treat additional entities as public interest entities and lists entities in Australia which will generally be considered to be public interest entities.

  For the purposes of PES 1 (Revised), public interest entities include:

  - Any for-profit entity that is required or chooses to report in accordance with Tier 1 under XRB A1[14]; and
  - Any other public benefit entity[15] that applies the full financial reporting standards.
- NZ290.11.1 and NZ291.10.1 requires that when 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.
- NZ290.146 specifically prohibits a firm from providing audit services to an entity if the partner or employee of the firm serves as an officer or director, liquidator or receiver in respect of the property of the client or in a similar role.
- Unless strict requirements are met, the Australian Code prohibits the provision of accounting and bookkeeping services and preparing tax calculations for audit clients

14 XRB A1 *Application of Accounting Standards.*

15 XRB A1 for Tier 1 public benefit entities will only be finalised in 2014/2015. It is the intention of the NZAuASB that all Tier 1 entities will meet the definition of a public interest entity for the purposes of this standard.

which are Public Interest Entities, even in emergency situations. The IFAC Code and PES 1 allow for this in emergency situations only.

- NZ290.220.1 and NZ291.151.1 emphasises that an assurance practitioner shall decline or withdraw from an engagement where the total fees from the client represent a large proportion of the total fees of the firm and safeguards have not eliminated or reduced the threats to an acceptable level.
- In some instances the independence requirements in section 290 are more stringent than those in section 291. The following more stringent requirements have been added to section 291 in PES 1 (Revised):
    - The IFAC Code proposes to include an abbreviated version of the requirements to address a breach of a requirement of the Code. NZ291.33-44 includes the detailed requirements proposed for section 290.
    - Additional guidance on temporary staff assignments as it relates to assurance engagements that are not audit or reviews has been added. (NZ291.131.1).
- In addition, the following more stringent requirements for assurance clients, that are not audit or review clients, that are PIEs have been added to section 291:
    - Impose a 7 year rotation period and a 2 year stand down period on key assurance partners for assurance clients that are PIEs. (NZ291.139.1-5)
    - Prohibit the provision of valuation services to assurance clients that are PIEs if the valuation is material to the subject matter on which the firm will express an opinion. (NZ291.150.1)
    - Prohibit the provision of IT system services involving the design or implementation of the IT systems that form a significant part of the internal control over the subject matter or generate information that is significant to the subject matter information to assurance clients that are PIEs. (NZ291.150.2)
    - Prohibit the provision of recruiting services for key positions able to exert significant influence over the subject matter or subject matter information of the engagement to assurance services that are PIEs. (NZ291.150.3)
    - Require a pre- or post- issuance review where total fees from an assurance client that is a PIE represent more than 15% of the total received by the firm. (NZ291.152.1)
- Paragraph NZ291.27.1 creates an exception to the independence requirements for public interest entities in section 291 in limited circumstances where the report includes restriction on use and distribution. This is similar to the exception allowed for in section 290 in the IFAC Code and has been added to section 291 in PES 1 (Revised) because the public interest entity requirements described above have been added to section 291.

Appendix 1

Amendments to Other Pronouncements

This appendix sets out amendments to other ISAs (NZ), ISAEs (NZ) and other pronouncements issued by the XRB or the NZAuASB that are a consequence of the issuance of this PES 1 (Revised). Amended paragraphs are shown with new text underlined and deleted text struck through.

There are generic changes required to the relevant ISAs (NZ), ISAEs (NZ) and other pronouncements issued by the XRB Board or the NZAuASB to amend:

1. References to the Fundamental Principles as follows:
   (a) Integrity;
   (b) Objectivity ~~and Independence~~;
   (c) Professional ~~C~~competence and due care;
   (d) ~~Quality Performance~~Confidentiality; and
   (e) Professional Behaviour.
   Part B of Professional and Ethical Standard 1[16] illustrates how the conceptual framework is to be applied in specific situations.

2. The following definitions:
   (a) Firm – A sole practitioner or partnership, corporation or other entity ~~of professional accountants~~undertaking assurance engagements.
   (b) Issuer – All issuers, as defined by the Securities Act 1978 or any other Act, irrespective of size. ~~An entity referred to under section 4 of the Financial Reporting Act 1993 and includes an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.~~

3. References to Professional and Ethical Standard 2, "Independence in Assurance Engagements", will be deleted or replaced by references to Professional and Ethical Standard 1, "Code of Ethics for Assurance Practitioners".

4. The title of Professional and Ethical Standard 1, "Ethical Standards for Assurance Providers" will be amended to "Code of Ethics for Assurance Practitioners".

ISA (NZ) 200

A14. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise Professional and Ethical Standard 1[17] ~~and Professional and Ethical Standard 2[18](together referred to as "the Ethical Standards").~~

ISA (NZ) 220

A5. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this ISA (NZ). For example, Professional and Ethical Standard 1 defines the "firm" as:

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16 Professional and Ethical Standard 1, "Code of Ethics for Assurance Practitioners".

17 Professional and Ethical Standard 1, "Code of Ethics for Assurance Practitioners ~~Ethical Standards for Assurance Providers~~".

~~18 Professional and Ethical Standard 2, "Independence in Assurance Engagements".~~

(a) A sole practitioner, partnership or ~~corporate practice~~ corporation undertaking assurance engagements;

(b) An entity that controls such parties, through ownership, management or other means; and

(c) An entity controlled by such parties, through ownership, management or other means.

Professional and Ethical Standard ~~2~~1 also provides guidance in relation to the terms "network" and "network firm."

In complying with the requirements in paragraphs 9-11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

ISA (NZ) 700

NZ A27.1 Professional and Ethical Standard 1, ~~Rule 11~~ requires assurance practitioners to act in accordance ~~comply~~ with ~~Auditing~~ the ~~S~~standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board; therefore assurance practitioners shall not sign an audit report that does not conform to the requirements of this ISA (NZ). In the extremely rare situation described above, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).

Explanatory Guide Au1 Overview of Auditing and Assurance Standards

25 There are ~~three~~two Professional and Ethical Standards:

- Professional and Ethical Standard 1 (Revised): ~~*Ethical Standards for Assurance Providers*~~ *Code of Ethics for Assurance Practitioners*
- ~~Professional and Ethical Standard 2: *Independence in Assurance Engagements*~~
- Professional and Ethical Standard 3: *Quality Control*