EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Guide to PES 1

Non-authoritative aid to using the International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)

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Contents

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Purpose of the Code

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

How the Code is Structured

4. The Code contains the following material:
   - Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework.
   - Part 2 – *Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm,* is applicable to individuals who are assurance practitioners when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.
   - Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, which sets out additional material that applies to assurance practitioners when providing assurance services.
   - *International Independence Standards (New Zealand)*, which sets out additional material that applies to assurance practitioners when providing assurance services, as follows:
     - Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements.
     - Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, Review Engagements and Sustainability Assurance Engagements Addressed in Part 5*, which applies when performing assurance engagements that are not audit engagements, review engagements and sustainability assurance engagements addressed in Part 5.

- Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)* which sets out additional material that applies to sustainability assurance practitioners when performing sustainability assurance engagements, as follows:
  - Sections 5100 to 5390 – ethics standards for all sustainability assurance engagements (including those within the scope of the International Independence Standards in Part 5) and other professional services performed for sustainability assurance clients.
  - Sections 5400 to 5600 – independence standards for sustainability assurance engagements that are within the scope of the International Independence Standards in Part 5 as set out in paragraphs 5400.3a and 5400.3b.
- *Glossary,* which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, in Part 4A, the term "audit engagement" applies equally to both audit and review engagements.

5. The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:

   (a) Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.

   (b) Requirements – establish general and specific obligations with respect to the subject matter addressed.

   (c) Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to Use the Code

The Fundamental Principles, Independence and Conceptual Framework

6. The Code requires assurance practitioners or sustainability assurance practitioners to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires exercising professional judgement, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.

7. The conceptual framework recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, or the firm, might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the assurance practitioner's or sustainability assurance practitioner's evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires the assurance practitioner or sustainability assurance practitioner to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the assurance practitioner or sustainability assurance practitioner takes that effectively reduce threats to an acceptable level.

8. In addition, the Code requires assurance practitioners to be independent when performing audit, review and other assurance engagements. The Code also requires sustainability assurance practitioners to be independent when performing sustainability assurance engagements addressed in Part 5. The conceptual framework applies in the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.

9. Complying with the Code requires knowing, understanding and applying:

    - All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 200, 300, 400 and 900, as applicable.
    - All of the relevant provisions of a particular section in the context of Part 5.
    - All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled “General” and “All Audit Clients” together with additional specific provisions, including those set out under the subheadings titled “Audit or Review Clients that are not Public Interest Entities” or “Audit or Review Clients that are Public Interest Entities.”
    - All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

Requirements and Application Material

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

Requirements

11. Requirements are designated with the letter “R” and, in most cases, include the word “shall.” The word “shall” in the Code imposes an obligation on an assurance practitioner, sustainability assurance practitioner or firm to comply with the specific provision in which “shall” has been used.

12. In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter “R” but uses “may” or conditional wording.

13. When the word “may” is used in the Code, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

14. When the word “might” is used in the Code, it denotes the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

Application Material

15. In addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help an assurance practitioner or sustainability assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper

application of the requirements of the Code, including application of the conceptual framework. Application material is designated with the letter “A.”

16. Where application material includes lists of examples, these lists are not intended to be exhaustive.

Appendix to Guide to the Code

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

Appendix to the Guide to the Code

Overview of the Code

For Assurance Practitioners

PART 1 — **Complying with the Code, Fundamental Principles and Conceptual Framework**

(Sections 100 to 120)

PART 2 — **Assurance Practitioners Performing Professional Activities Pursuant to their Relationship with the Firm**

(Sections 200 to 290)

PART 3 — **Application of the Code, Fundamental Principles and Conceptual Framework**

(Sections 300 to 390)

PARTS 4A & 4B — **International Independence Standards (New Zealand)**

Part 4A—Independence for Audit and Review Engagements

(Sections 400 to 800)

Part 4B—Independence for Assurance Engagements Other than Audit Engagements, Review Engagements and Sustainability Assurance Engagements Addressed in Part 5

(Sections 900 to 990)

For Sustainability Assurance Practitioners

PART 5

International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)

For Sustainability Assurance Engagements scoped to Part 5

(Sections 5100 to 5600)

GLOSSARY