

## Section 3

### Code of Ethics and Conduct

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# Guide to the ACCA Code of Ethics and Conduct

1. In this guide to the Code of Ethics and Conduct, use of the word “Code” refers to the ACCA Code of Ethics and Conduct, unless there is an explicit indication to the contrary. In creating this Code, ACCA has adopted, and incorporated in full, the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA).
2. ACCA has augmented the IESBA code with additional requirements and guidance that are appropriate to ACCA and its members. This additional material is clearly differentiated from the original text of the IESBA code by the use of italics. In adopting the IESBA code, to the greatest extent possible, ACCA has not changed any of the IESBA text, and has reproduced it in exactly the form issued by the IESBA.

## Scope and authority of the Code

3. The IESBA code establishes ethical requirements for members of IFAC member bodies, and requires ACCA to apply ethical standards that are no less stringent than those stated in the IESBA code. Therefore, in adopting the IESBA code, it has been necessary to amend the wording to ensure that it remains relevant to members, students, affiliates and member firms of ACCA. Accordingly, several references in the IESBA code to “a member body”, “a professional body” or “the relevant professional body” have been changed to “ACCA”.
4. Where there may be perceived to be any conflict between the requirements of the IESBA code and the ACCA augmentations in italics (including this guide), the more stringent requirements shall apply.
5. Where statutory and regulatory requirements are concerned, ACCA registered students, affiliates and members are reminded that they must also refer to, and comply with, the legislation and regulatory requirements of the countries in which they work.
6. In some specialist areas of work, such as audit, insolvency and financial services, **professional accountants** are subject to a variety of statutory and regulatory requirements. Where this Code imposes a more stringent requirement than statutory and regulatory requirements, or vice versa, the more stringent requirement will apply, unless prohibited by law or regulation.

## To whom does the Code apply?

7. Reference throughout this Code will be made to “professional accountants”, which is interpreted in the context of the ACCA Code of Ethics and Conduct as members or, where appropriate, students, affiliates or member firms of ACCA.
8. ACCA registered students, affiliates and members are required to observe proper standards of conduct. The Code applies to all ACCA registered students, affiliates and members in relation to all matters connected to their professional lives. This means that in matters connected to their professional lives, they must refrain from taking any action which amounts to a departure from the standards set out in this Code. In both their professional and personal lives, they must also refrain from what is described in ACCA’s bye-law 8 as misconduct.
9. Registered students and affiliates are bound by the ethical requirements of ACCA, as affirmed by their signature on the application forms to be enrolled as registered students.

10. *Registered students remain bound by ACCA's ethical requirements during the period between successful completion of the examinations and their admission to membership (i.e. those having affiliate status). On admission to membership they become subject to the same requirements in their new capacity.*

## **Non-compliance with the Code**

11. *An ACCA registered student, affiliate or member who fails to comply with this Code (incorporating the IESBA code) will be liable to disciplinary action. Two committees have been appointed by Council to enforce ACCA's ethical standards: Disciplinary Committee and Appeal Committee. The committees derive their powers from the bye-laws. Those failing to observe the standards expected of them may be required to answer a complaint before ACCA's Disciplinary Committee.*
12. *It is not possible to specify all those combinations of circumstances in which a professional accountant may be held by Disciplinary Committee to have fallen below the standard expected. However, this section of the Rulebook (which may be added to or varied from time to time) sets out ACCA's ethical requirements in relation to those professional situations that most commonly arise.*

## **Purpose of the Code**

13. The Code sets out **fundamental principles** of ethics for professional accountants, reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behavior expected of a professional accountant. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.
14. The Code provides a **conceptual framework** that professional accountants 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 accountants apply the conceptual framework to those topics.
15. In the case of **audits**, reviews and other **assurance engagements**, the Code sets out *International Independence Standards*, established by the application of the conceptual framework to threats to **independence** in relation to these engagements.

## **How the Code is structured**

16. *The Code is set out in three sections – Section A comprises the entire IESBA code, including some augmentations relevant to ACCA registered students, affiliates and members; Section B holds supplementary requirements and guidance relevant specifically to professional accountants in public practice, and Section C holds supplementary requirements relevant specifically to professional accountants in business. However, professional accountants may find the guidance in any part of the Code applicable to their specific circumstances.*
17. The IESBA 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 and is applicable to all professional accountants.

- Part 2 – *Professional Accountants in Business*, which sets out additional material that applies to professional accountants in business when performing [professional activities](#). Professional accountants in business include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:
  - o Commerce, industry or service.
  - o The public sector.
  - o Education.
  - o The not-for-profit sector.
  - o Regulatory or professional bodies.

Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the [firm](#), whether as a contractor, employee or owner.

- Part 3 – *Professional Accountants in Public Practice*, which sets out additional material that applies to professional accountants in public practice when providing [professional services](#).
- *International Independence Standards*, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows:
  - o Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or [review engagements](#).
  - o Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.
- *Glossary*, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term “[audit engagement](#)” applies equally to both audit and review engagements. The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.

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

- Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- Requirements – establish general and specific obligations with respect to the subject matter addressed.
- Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

## How to use the Code

19. ACCA registered students, affiliates and members who are in doubt as to their correct course of action in particular cases may obtain further guidance from ACCA. It is advisable to seek guidance prior to embarking on a course of action.

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

20. The Code requires professional accountants 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 judgment, remaining alert for new information and to changes in facts and circumstances, and using the [reasonable and informed third party test](#).
21. The conceptual framework recognizes that the existence of conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the professional accountant's evaluation of whether a threat is at an [acceptable level](#). When threats are not at an acceptable level, the conceptual framework requires the accountant to address those threats. Applying [safeguards](#) is one way that threats might be addressed. Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level.
22. In addition, the Code requires professional accountants to be independent when performing audit, review and other assurance engagements. The conceptual framework applies in the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.
23. 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, 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 Clients that are not Public Interest Entities" or "Audit 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*

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

### **Requirements**

25. 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 a professional accountant or firm to comply with the specific provision in which "shall" has been used.

26. 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.
27. 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.
28. 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**

29. 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 a professional accountant 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."
30. Where application material includes lists of examples, these lists are not intended to be exhaustive.

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

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

# OVERVIEW OF THE CODE

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## SECTION A

### **INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)**

The ACCA Rulebook includes the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA), published by the International Federation of Accountants (IFAC) in April 2018 and is used with permission of IFAC. Contact [Permissions@ifac.org](mailto:Permissions@ifac.org) for permission to reproduce, store or transmit, or to make other similar uses of this document.

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## **PREFACE**

The IESBA develops and issues, under its own standard setting authority, the *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("the Code"). The Code is for use by professional accountants around the world. The IESBA establishes the Code for international application following due process.

The International Federation of Accountants (IFAC) establishes separate requirements for its member bodies with respect to the Code.

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

## **SECTION 100 COMPLYING WITH THE CODE**

### **General**

- 100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.
- 100.2 A1 The requirements in the Code, designated with the letter "R," impose obligations.
- 100.2 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.
- R100.3** A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.
- 100.3 A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.
- 100.3 A2 A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with ACCA.

### **Breaches of the Code**

- R100.4** Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:
- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
  - (b) Determine whether to report the breach to the relevant parties.
- 100.4 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, ACCA or another professional or regulatory body or an oversight authority.

## SECTION 110

# THE FUNDAMENTAL PRINCIPLES

### General

- 110.1 A1 There are five fundamental principles of ethics for professional accountants:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
  - (b) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
  - (c) Professional Competence and Due Care – to:
    - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
    - (ii) Act diligently and in accordance with applicable technical and professional standards.
  - (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
  - (e) Professional Behavior – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.
- R110.2** A professional accountant shall comply with each of the fundamental principles.
- 110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.
- 110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:
- Others within the firm or employing organization.
  - Those charged with governance.
  - ACCA or another professional body.
  - A regulatory body.
  - Legal counsel.
- However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.
- 110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

## SUBSECTION 111 – INTEGRITY

- R111.1** A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.
- 111.1 A1 Integrity implies fair dealing and truthfulness.
- R111.2** A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:
- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information provided recklessly; or
  - (c) Omits or obscures required information where such omission or obscurity would be misleading.
- 111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.
- R111.3** When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

## SUBSECTION 112 – OBJECTIVITY

- R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.
- R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

## SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

- R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:
- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (b) Act diligently and in accordance with applicable technical and professional standards.
- 113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.
- 113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.



- 113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- R113.2** In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.
- R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

## SUBSECTION 114 – CONFIDENTIALITY

- R114.1** A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:
- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
  - (b) Maintain confidentiality of information within the firm or employing organization;
  - (c) Maintain confidentiality of information disclosed by a prospective client or employing organization;
  - (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
  - (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
  - (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
  - (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.
- 114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:
- (a) Disclosure is required by law, for example:
    - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
    - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;

- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
  - (i) To comply with the quality review of ACCA or another professional body;
  - (ii) To respond to an inquiry or investigation by ACCA or another professional or regulatory body;
  - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
  - (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - o Unsubstantiated facts.
  - o Incomplete information.
  - o Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

**R114.2** A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

## SUBSECTION 115 – PROFESSIONAL BEHAVIOR

**R115.1** A professional accountant shall comply with the principle of professional behavior, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a **reasonable and informed third party** would be likely to conclude adversely affects the good reputation of the profession.

**R115.2** When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a)** Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- (b)** Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a professional accountant is in doubt about whether a form of **advertising** or marketing is appropriate, the accountant is encouraged to consult with ACCA.

115.3 *A professional accountant shall behave with courtesy and consideration towards all with whom the professional accountant comes into contact in a professional capacity.*

## SECTION 120

# THE CONCEPTUAL FRAMEWORK

### Introduction

- 120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

### Requirements and Application Material

#### General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – *Professional Accountants in Business*;
  - (b) Part 3 – *Professional Accountants in Public Practice*; and
  - (c) *International Independence Standards*, as follows:
    - (i) Part 4A – *Independence for Audit and Review Engagements*; and
    - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.
- R120.4** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a [professional accountant in public practice](#) is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.
- R120.5** When applying the conceptual framework, the professional accountant shall:
- (a) Exercise professional judgment;
  - (b) Remain alert for new information and to changes in facts and circumstances; and
  - (c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

### ***Exercise of Professional Judgment***

- 120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.
- 120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment.
- 120.5 A3 In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
  - There is an inconsistency between the known facts and circumstances and the accountant's expectations.
  - The accountant's expertise and experience are sufficient to reach a conclusion.
  - There is a need to consult with others with relevant expertise or experience.
  - The information provides a reasonable basis on which to reach a conclusion.
  - The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.
  - There might be other reasonable conclusions that could be reached from the available information.

### ***Reasonable and Informed Third Party***

- 120.5 A4 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

### **Identifying Threats**

- R120.6** The professional accountant shall identify threats to compliance with the fundamental principles.
- 120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions,

policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

- 120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.
- 120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:
- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior;
  - (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
  - (c) Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;
  - (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
  - (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.
- 120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

## Evaluating Threats

- R120.7** When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

### *Acceptable Level*

- 120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

### *Factors Relevant in Evaluating the Level of Threats*

- 120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable.
- 120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

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

**R120.9** If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

### **Addressing Threats**

**R120.10** If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

### ***Actions to Eliminate Threats***

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

### ***Safeguards***

120.10 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

## ***Consideration of Significant Judgments Made and Overall Conclusions Reached***

- R120.11** The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:
- (a) Review any significant judgments made or conclusions reached; and
  - (b) Use the reasonable and informed third party test.

## **Considerations for Audits, Reviews and Other Assurance Engagements**

### ***Independence***

- 120.12 A1 Professional accountants in public practice are required by *International Independence Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
  - (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or **assurance team** member's integrity, objectivity or professional skepticism has been compromised.
- 120.12 A2 *International Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

### ***Professional Skepticism***

- 120.13 A1 Under auditing, review and other assurance standards, including those issued by the IAASB, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.
- 120.13 A2 In an audit of **financial statements**, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:
- *Integrity* requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
    - (a) Being straightforward and honest when raising concerns about a position taken by a client; and



- (b) Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- Objectivity requires the professional accountant not to compromise professional or business judgment because of bias, conflict of interest or the undue influence of others. For example, the accountant complies with the principle of objectivity by:
  - (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and
  - (b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- Professional competence and due care requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:
  - (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
  - (b) Designing and performing appropriate audit procedures; and
  - (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

**PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

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## PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

### SECTION 200 APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

#### Introduction

- 200.1 This Part of the Code sets out requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 A [professional accountant in business](#) might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.
- 200.4 In this Part, the term “professional accountant” refers to:
- (a) A professional accountant in business; and
  - (b) An individual who is a professional accountant in public practice when performing professional activities pursuant to the accountant’s relationship with the accountant’s firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to professional accountants in public practice is set out in paragraphs R120.4, R300.5 and 300.5 A1.

#### Requirements and Application Material

##### General

- R200.5** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.
- 200.5 A1 A professional accountant has a responsibility to further the legitimate objectives of the accountant’s employing organization. The Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent **non-compliance with laws and regulations**.

## Identifying Threats

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:

(a) Self-interest Threats

- A professional accountant holding a **financial interest** in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

(b) Self-review Threats

- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

(c) Advocacy Threats

- A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.

(d) Familiarity Threats

- A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.

- A professional accountant having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - o The application of an accounting principle.
  - o The way in which financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

## Evaluating Threats

- 200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.
- 200.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.
- 200.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
  - Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
  - Policies and procedures to implement and monitor the quality of employee performance.
  - Systems of corporate oversight or other oversight structures and strong internal controls.
  - Recruitment procedures emphasizing the importance of employing high caliber competent personnel.
  - Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
  - Ethics and code of conduct policies.
- 200.7 A4 Professional accountants might consider obtaining legal advice where they believe that unethical behavior or actions by others have occurred, or will continue to occur, within the employing organization.

## Addressing Threats

- 200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.

- 200.8 A2 *In circumstances where a professional accountant in business believes that, after exhausting all relevant possibilities, the matter remains unresolved, the professional accountant shall, where possible, disassociate himself from the matter. The professional accountant may also consider whether, in the circumstances, it is appropriate to withdraw from the specific project.*

In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for a professional accountant to resign from the employing organization.

## **Communicating with Those Charged with Governance**

- R200.9** When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.
- 200.9 A1 In determining with whom to communicate, a professional accountant might consider:
- (a) The nature and importance of the circumstances; and
  - (b) The matter to be communicated.
- 200.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.
- R200.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.
- 200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

## **Advisory Services**

- 200.11 *Professional accountants in business faced with an ethical problem may call upon ACCA for confidential advice.*
- 200.12 *Professional accountants are also referred to guidance ACCA has issued for professional accountants in business to assist them in discharging their professional obligations. This can be viewed at <https://www.accaglobal.com/uk/en/member/regulation/factsheets.html>.*
- 200.13 *There are also independent organisations which have been established to provide support for employees troubled by ethical dilemmas at work, such as Public Concern at Work ([www.pcaw.co.uk](http://www.pcaw.co.uk)) in the United Kingdom, which can provide more detailed guidance on the requirements of the whistleblowing legislation.*

## SECTION 210

# CONFLICTS OF INTEREST

### Introduction

- 210.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 210.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- A professional accountant 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 interest of a professional accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.
- A party might include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.
- 210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

### Requirements and Application Material

#### General

- R210.4** A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.
- 210.4 A1 Examples of circumstances that might create a conflict of interest include:
- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.
  - Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.
  - Preparing financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.
  - Being responsible for selecting a vendor for the employing organization when an **immediate family** member of the accountant might benefit financially from the transaction.
  - Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

### **Conflict Identification**

- R210.5** A professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:
- (a) The nature of the relevant interests and relationships between the parties involved; and
  - (b) The activity and its implication for relevant parties.
- R210.6** A professional accountant shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

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

- 210.7 A1 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.
- 210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.
- 210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:
- Restructuring or segregating certain responsibilities and duties.
  - Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

### **Disclosure and Consent**

#### **General**

- 210.8 A1 It is generally necessary to:
- (a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organization affected by a conflict; and
  - (b) Obtain consent from the relevant parties for the professional accountant to undertake the professional activity when safeguards are applied to address the threat.
- 210.8 A2 Consent might be implied by a party's conduct in circumstances where the professional accountant has sufficient evidence to conclude that the parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.
- 210.8 A3 If such disclosure or consent is not in writing, the professional accountant is encouraged to document:
- (a) The nature of the circumstances giving rise to the conflict of interest;
  - (b) The safeguards applied to address the threats when applicable; and
  - (c) The consent obtained.

### **Other Considerations**

- 210.9 A1 When addressing a conflict of interest, the professional accountant is encouraged to seek guidance from within the employing organization or from others, such as ACCA, legal counsel or another accountant. When making such disclosures or sharing information within the employing organization and seeking guidance of third parties, the principle of confidentiality applies.



## SECTION 220

# PREPARATION AND PRESENTATION OF INFORMATION

### Introduction

- 220.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### Requirements and Application Material

#### General

- 220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

- 220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Risk analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

- 220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

- R220.4** When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;

- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
  - (i) Represent the facts accurately and completely in all material respects;
  - (ii) Describe clearly the true nature of business transactions or activities; and
  - (iii) Classify and record information in a timely and proper manner; and
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

### **Use of Discretion in Preparing or Presenting Information**

**R220.5** Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.

**R220.6** When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:

- (a) The purpose for which the information is to be used;
- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

- 220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.
- 220.6 A2 The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

### **Relying on the Work of Others**

**R220.7** A professional accountant who intends to rely on the work of others, either internal or external to the employing organization, shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

### **Addressing Information that Is or Might Be Misleading**

**R220.8** When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

*Accordingly, a professional accountant in business shall not be associated with reports, returns, communications or other information where the professional accountant in business believes that the information:*

- (a) *contains a materially false or misleading statement;*
- (b) *contains statements or information furnished recklessly;*
- (c) *has been prepared with bias; or*
- (d) *omits or obscures information required to be included where such omission or obscurity would be misleading.*

220.8 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - o Having the information corrected.
  - o If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.8 A2 The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
  - o ACCA or another relevant professional body.
  - o The internal or external auditor of the employing organization.
  - o Legal counsel.
- Determining whether any requirements exist to communicate to:
  - o Third parties, including users of the information.
  - o Regulatory and oversight authorities.

**R220.9** If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

220.9 A1 In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

## Documentation

220.10 A1 The professional accountant is encouraged to document:

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the accountant attempted to address the matter(s).

## Other Considerations

220.11 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.11 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.11 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

## SECTION 230

### ACTING WITH SUFFICIENT EXPERTISE

#### Introduction

- 230.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- R230.3** A professional accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.
- 230.3 A1 The principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.
- 230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if a professional accountant has:
- Insufficient time for performing or completing the relevant duties.
  - Incomplete, restricted or otherwise inadequate information for performing the duties.
  - Insufficient experience, training and/or education.
  - Inadequate resources for the performance of the duties.
- 230.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- The extent to which the professional accountant is working with others.
  - The relative seniority of the accountant in the business.
  - The level of supervision and review applied to the work.
- 230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Obtaining assistance or training from someone with the necessary expertise.
  - Ensuring that there is adequate time available for performing the relevant duties.
- R230.4** If a threat to compliance with the principle of professional competence and due care cannot be addressed, a professional accountant shall determine whether to decline to perform the duties in question. If the accountant determines that declining is appropriate, the accountant shall communicate the reasons.

##### Other Considerations

- 230.5 A1 The requirements and application material in Section 270 apply when a professional accountant is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

## SECTION 240

# FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING

### Introduction

- 240.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### Requirements and Application Material

#### General

- R240.3** A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.
- 240.3 A1 Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.
- 240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:
- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
  - Holds a direct or **indirect financial interest** in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.
  - Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the accountant.
  - Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
  - Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.
- 240.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.

- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
  - o All relevant interests.
  - o Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

## SECTION 250

### INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

#### Introduction

- 250.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 250.2 Offering or accepting **inducements** might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

#### Requirements and Application Material

##### General

- 250.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment or other commercial opportunities.
  - Preferential treatment, rights or privileges.

##### Inducements Prohibited by Laws and Regulations

- R250.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The professional accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

##### Inducements Not Prohibited by Laws and Regulations

- 250.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.



*Inducements with Intent to Improperly Influence Behavior*

- R250.7** A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- R250.8** A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- 250.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals.
- 250.9 A2 A breach of the fundamental principle of integrity arises when a professional accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.
- 250.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:
- The nature, frequency, value and cumulative effect of the inducement.
  - Timing of when the inducement is offered relative to any action or decision that it might influence.
  - Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
  - Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
  - Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organization, such as other customers or vendors.
  - The roles and positions of the individuals offering or being offered the inducement.
  - Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization.
  - The degree of transparency with which the inducement is offered.
  - Whether the inducement was required or requested by the recipient.
  - The known previous behavior or reputation of the offeror.

### Consideration of Further Actions

- 250.10 A1 If the professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R250.7 and R250.8 are met.
- 250.10 A2 Examples of actions that might be safeguards to address such threats include:
- Informing senior management or those charged with governance of the employing organization of the professional accountant or the offeror regarding the offer.
  - Amending or terminating the business relationship with the offeror.

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

- 250.11 A1 The requirements and application material set out in the conceptual framework apply when a professional accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.
- 250.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.
- 250.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the professional accountant has concluded there is no actual or perceived intent to improperly influence behavior include:
- Self-interest threats
    - A professional accountant is offered part-time employment by a vendor.
  - Familiarity threats
    - A professional accountant regularly takes a customer or supplier to sporting events.
  - Intimidation threats
    - A professional accountant accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.
- 250.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 250.9 A3 for determining intent.
- 250.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:
- Declining or not offering the inducement.
  - Transferring responsibility for any business-related decision involving the counterparty to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.
- 250.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:
- Being transparent with senior management or those charged with governance of the employing organization of the professional accountant or of the counterparty about offering or accepting an inducement.

- Registering the inducement in a log maintained by the employing organization of the accountant or the counterparty.
- Having an **appropriate reviewer**, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the accountant with respect to the individual or organization from which the accountant accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

### Immediate or Close Family Members

- R250.12** A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by the offering of an inducement:
- (a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship; or
  - (b) To an immediate or close family member of the accountant by a counterparty with whom the accountant has a professional relationship.

**R250.13** Where the professional accountant becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the accountant or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The accountant and the immediate or close family member;
- (b) The immediate or close family member and the counterparty; and
- (c) The accountant and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the accountant by a counterparty with whom the accountant is negotiating a significant contract might indicate such intent.

250.13 A2 The application material in paragraph 250.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the professional accountant or of the counterparty even if the immediate or close family member has followed the advice given pursuant to paragraph R250.13.

### ***Application of the Conceptual Framework***

- 250.14 A1 Where the professional accountant becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12, threats to compliance with the fundamental principles might be created where:
- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to paragraph R250.13; or
  - (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the counterparty exists.
- 250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 250.13 A1.

### **Other Considerations**

- 250.15 A1 If a professional accountant is offered an inducement by the employing organization relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 apply.
- 250.15 A2 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organization, the requirements and application material set out in Section 260 apply.
- 250.15 A3 If a professional accountant faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 apply.

## **SECTION 260**

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

### **Introduction**

- 260.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

### **Objectives of the Professional Accountant in Relation to Non-Compliance with Laws and Regulations**

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

### **Requirements and Application Material**

#### **General**

- 260.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The professional accountant's employing organization;
- (b) Those charged with governance of the employing organization;
- (c) Management of the employing organization; or
- (d) Other individuals working for or under the direction of the employing organization.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially **substantial harm** to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R260.6** In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

260.6 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.

260.7 A1 This section applies regardless of the nature of the employing organization, including whether or not it is a **public interest entity**.

260.7 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organization, its stakeholders and the general public.

260.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the employing organization; and
- (b) Non-compliance by parties other than those specified in paragraph 260.5 A1.

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

### **Responsibilities of the Employing Organization's Management and Those Charged with Governance**

260.8 A1 The employing organization's management, with the oversight of those charged with governance, is responsible for ensuring that the employing organization's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The employing organization;
- (b) An individual charged with governance of the employing organization;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the employing organization.

### **Responsibilities of All Professional Accountants**

**R260.9** If protocols and procedures exist within the professional accountant's employing organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such non-compliance.

260.9 A1 Many employing organizations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

**R260.10** Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees or the general public.

### **Responsibilities of Senior Professional Accountants in Business**

260.11 A1 Senior professional accountants in business ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organization. This is because of senior professional accountants' roles, positions and spheres of influence within the employing organization.

### *Obtaining an Understanding of the Matter*

- R260.12** If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include:
- (a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;
  - (b) The application of the relevant laws and regulations to the circumstances; and
  - (c) An assessment of the potential consequences to the employing organization, investors, creditors, employees or the wider public.
- 260.12 A1 A senior professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- 260.12 A2 Depending on the nature and significance of the matter, the senior professional accountant might cause, or take appropriate steps to cause, the matter to be investigated internally. The accountant might also consult on a confidential basis with others within the employing organization or with ACCA or another professional body, or with legal counsel.

### *Addressing the Matter*

- R260.13** If the senior professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R260.9, discuss the matter with the accountant's immediate superior, if any. If the accountant's immediate superior appears to be involved in the matter, the accountant shall discuss the matter with the next higher level of authority within the employing organization.
- 260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.
- R260.14** The senior professional accountant shall also take appropriate steps to:
- (a) Have the matter communicated to those charged with governance;
  - (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
  - (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
  - (d) Reduce the risk of re-occurrence; and
  - (e) Seek to deter the commission of the non-compliance if it has not yet occurred.
- 260.14 A1 The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.
- 260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.



**R260.15** In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

***Determining Whether Further Action Is Needed***

**R260.16** The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.

260.16 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior professional accountant's superiors, if any, and those charged with governance include whether:

- The response is timely.
- They have taken or authorized appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

**R260.17** In light of the response of the senior professional accountant's superiors, if any, and those charged with governance, the accountant shall determine if further action is needed in the public interest.

260.17 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the employing organization.
- Whether the senior professional accountant continues to have confidence in the integrity of the accountant's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.

260.17 A2 Examples of circumstances that might cause the senior professional accountant no longer to have confidence in the integrity of the accountant's superiors and those charged with governance include situations where:

- The accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

**R260.18** The senior professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

260.18 A1 Further action that the senior professional accountant might take includes:

- Informing the management of the parent entity of the matter if the employing organization is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Resigning from the employing organization.

260.18 A2 Resigning from the employing organization is not a substitute for taking other actions that might be needed to achieve the senior professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, resignation might be the only available course of action.

### Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgments, the senior professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body such as ACCA.

### Determining Whether to Disclose the Matter to an Appropriate Authority

260.20 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

260.20 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

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

- The employing organization is promoting a scheme to its clients to assist them in evading taxes.

260.20 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.

**R260.21** If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

### *Imminent Breach*

**R260.22** In exceptional circumstances, the senior professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organization, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

### *Documentation*

260.23 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the accountant's superiors, if any, and those charged with governance and other parties.
- How the accountant's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R260.17.

## **Responsibilities of Professional Accountants Other than Senior Professional Accountants**

- R260.24** If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.
- 260.24 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- 260.24 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the employing organization or with ACCA or another professional body, or with legal counsel.
- R260.25** If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the accountant's immediate superior appears to be involved in the matter, the accountant shall inform the next higher level of authority within the employing organization.
- R260.26** In exceptional circumstances, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the accountant does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

## **Documentation**

- 260.27 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:
- The matter.
  - The results of discussions with the accountant's superior, management and, where applicable, those charged with governance and other parties.
  - How the accountant's superior has responded to the matter.
  - The courses of action the accountant considered, the judgments made and the decisions that were taken.

## SECTION 270

# PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

### Introduction

- 270.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 270.2 Pressure exerted on, or by, a professional accountant might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### Requirements and Application Material

#### General

- R270.3** A professional accountant shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
  - (b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:
- Within the employing organization, for example, from a colleague or superior.
  - An external individual or organization such as a vendor, customer or lender.
  - Internal or external targets and expectations.
- 270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
    - o Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.
  - Pressure to influence preparation or presentation of information:
    - o Pressure to report misleading financial results to meet investor, analyst or lender expectations.
    - o Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
    - o Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.

## 270 Pressure to Breach the Fundamental Principles

- o Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- o Pressure to suppress internal **audit reports** containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - o Pressure from superiors to inappropriately reduce the extent of work performed.
  - o Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
  - o Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to inducements:
  - o Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
  - o Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - o Pressure to structure a transaction to evade tax.

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

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the professional accountant to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
  - o Higher levels of management.
  - o Internal or external auditors.
  - o Those charged with governance.
- Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
  - o A colleague, superior, human resources personnel, or another professional accountant;
  - o Relevant professional or regulatory bodies or industry associations; or
  - o Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the professional accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

## Documentation

270.4 A1 The professional accountant is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

**PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

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## PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

### SECTION 300 APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

#### Introduction

- 300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.
- 300.2 The requirements and application material that apply to professional accountants in public practice are set out in:
- Part 3 – *Professional Accountants in Public Practice*, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
  - *International Independence Standards* as follows:
    - o Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
    - o Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit or review engagements.
- 300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

#### Requirements and Application Material

##### General

- R300.4** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.
- R300.5** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an **engagement partner** to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

## Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a **direct financial interest** in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.

- A professional accountant lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A [director or officer](#) of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An [audit team](#) member having a long association with the audit client.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

## Evaluating Threats

300.7 A1 The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- The client and its operating environment; and
- The firm and its operating environment.

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

### *The Client and its Operating Environment*

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

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

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

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

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

### ***The Firm and its Operating Environment***

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

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

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

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

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

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

- When the scope of a professional service is expanded.
- When the client becomes a **listed entity** or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.

- When there is a change in the professional accountant's personal or immediate family relationships.

## Addressing Threats

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

### Examples of Safeguards

- 300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:
- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
  - Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
  - Using different partners and **engagement teams** with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
  - Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
  - Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
  - Separating teams when dealing with matters of a confidential nature might address a self-interest threat.
- 300.8 A3 The remaining sections of Part 3 and *International Independence Standards* describe certain threats that might arise during the course of performing professional services and include examples of actions that might address threats.

### Appropriate Reviewer

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

## Communicating with Those Charged with Governance

- R300.9** When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.
- 300.9 A1 In determining with whom to communicate, a professional accountant might consider:
- (a) The nature and importance of the circumstances; and
  - (b) The matter to be communicated.
- 300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

**R300.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

## SECTION 310

# CONFLICTS OF INTEREST

### Introduction

- 310.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- A professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
  - The interests of a professional accountant with respect to a particular matter and the interests of the client for whom the accountant provides a professional service related to that matter are in conflict.
- 310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a professional accountant provides an audit, review or other assurance service, independence is also required in accordance with *International Independence Standards*.

### Requirements and Application Material

#### General

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

- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

## Conflict Identification

### General

**R310.5** Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

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

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

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

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

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

### Changes in Circumstances

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

310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a professional accountant is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the accountant initially might not be involved in a dispute.

### Network Firms

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



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

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

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

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

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

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

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

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

### **Disclosure and Consent**

#### *General*

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

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

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

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

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

310.9 A3 It is generally necessary:

- (a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and
- (b) To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.

310.9 A4 If such disclosure or consent is not in writing, the professional accountant is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

### *When Explicit Consent Is Refused*

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

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

## **Confidentiality**

### *General*

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

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

***When Disclosure to Obtain Consent would Breach Confidentiality***

**R310.12** When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

310.12 A1 A breach of confidentiality might arise, for example, when seeking consent to perform:

- A transaction-related service for a client in a hostile takeover of another client of the firm.
- A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud.

**Documentation**

**R310.13** In the circumstances set out in paragraph R310.12, the professional accountant shall document:

- (a) The nature of the circumstances, including the role that the accountant is to undertake;
- (b) The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and
- (c) Why it is appropriate to accept or continue the engagement.

***Conflicts between professional accountants' and clients' interests***

310.14 *A professional accountant in public practice shall not accept or continue an engagement in which there is, or is likely to be, a significant conflict of interest between the professional accountant and the client.*

310.15 *Any form of financial gain which accrues or is likely to accrue to a professional accountant in public practice as a result of an engagement, or as a result of using information known to him/her about a client, will always amount to a significant conflict of interest between the professional accountant and the client unless the financial gain is declared under the provisions of paragraph 310.17 below.*

310.16 *Whether any other form of interest is such as to amount to significant conflict will depend on all the circumstances of the case.*

### **Commission and other financial gains**

- 310.17 Where any commission, fee, reward or other financial gain is received by a firm or anyone in the firm, in return for the introduction of clients, as a result of advice or other services given to clients, or as a result of using information known about clients, the professional accountant in public practice shall, when necessary, establish safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards shall generally include:
- (a) disclosing to the client in writing any arrangement to receive a referral fee, both of the fact that such commission, fee, reward or other financial gain will be or has been received and, as soon as practicable, of its amount and terms; and
  - (b) obtaining advance agreement from the client for any referral arrangement in connection with the sale by a third party of goods or services to the client.
- 310.18 The provisions in paragraph 310.17 apply to any commission, fee, reward or other financial gain received, whether it relates to a single transaction concerning a client or more than one client, or a series or group of transactions concerning a client or more than one client. For the avoidance of doubt, this includes "override" commission, whereby in some jurisdictions commission may be earned if the number of financial products of a particular type sold by a professional accountant in public practice reaches a certain level.
- 310.19 Where the commission, fee, reward or other financial gain results from advice given to a client, special care shall be taken that the advice is in fact in the best interests of the client.

### **Agency work**

- 310.20 The acceptance by a professional accountant in public practice of an agency for the supply of services or products may present a conflict of interest which threatens compliance with the fundamental principles.
- 310.21 Before accepting or continuing an agency, a professional accountant shall satisfy himself/herself that:
- (a) his/her compliance with the fundamental principles would not be compromised; and
  - (b) such acceptance or continuance would not be rendered inappropriate by the nature of the services he/she is to provide under the agency, or the manner in which those services may be brought to the attention of the public.
- 310.22 In this section, references to "clients" are references to clients of the firm. A person does not become a client of the firm merely by virtue of being a customer or member of the organisation for which the firm is an agent. However, where the firm provides advice to such a person (whether gratuitously or for a fee) that person may become a client of the firm.

### **Conflicts between the interests of different clients**

- 310.23 There is, on the face of it, nothing improper in a firm having two or more clients whose interests may be in conflict, provided the work that the firm undertakes is not, itself, likely to be the subject of dispute between those clients.
- 310.24 In such cases, however, the firm's work shall be so managed as to avoid the interests of one client adversely affecting those of another.

- 310.25      *Where the acceptance or continuance of an engagement would, even with safeguards, materially prejudice the interests of any client, the appointment shall not be accepted or continued.*
- 310.26      *Such prejudice might arise in a variety of ways, including the leakage of information from one client to another and the firm being forced into a position where it has to choose between the interests of different clients.*

**Managing conflicts between clients' interests**

- 310.27      *All reasonable steps shall be taken to ascertain whether any conflict of interest exists, or is likely to arise in the future, both in regard to new engagements and to the changing circumstances of existing clients, and including any implications arising from the possession of confidential information.*
- 310.28      *Relationships with clients and former clients need to be reviewed before accepting a new appointment and regularly thereafter.*
- 310.29      *Where a professional accountant in public practice becomes aware of possible conflict between the interests of two or more clients, all reasonable steps shall be taken to manage the conflict and thereby avoid any adverse consequences.*
- 310.30      *Relationships which ended over two years before are unlikely to constitute conflict. The nature of the engagement is relevant in this connection.*

**Disengagement**

- 310.31      *Wherever a professional accountant in public practice is required to disengage from an existing engagement, he/she shall do so as speedily as is compatible with the interests of the clients concerned.*

## **SECTION 320**

### **PROFESSIONAL APPOINTMENTS**

#### **Introduction**

- 320.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 320.2 Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

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

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

###### *General*

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

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

## Changes in a Professional Appointment

### General

- R320.4** A professional accountant shall determine whether there are any reasons for not accepting an engagement when the accountant:
- (a) Is asked by a potential client to replace another accountant;
  - (b) Considers tendering for an engagement held by another accountant; or
  - (c) Considers undertaking work that is complementary or additional to that of another accountant.
- 320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a professional accountant accepts the engagement before knowing all the relevant facts.
- 320.4 A2 If a professional accountant is asked to undertake work that is complementary or additional to the work of an existing or predecessor accountant, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.
- Before accepting such work, a professional accountant in public practice shall determine whether to communicate with the existing accountant to inform them of the general nature of the complementary or additional work.*
- It is in the client's interest that the existing accountant is aware of the additional work being undertaken. This will facilitate the transfer of information between the advisers and aid them in carrying out their respective appointments.*
- 320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor accountant will be requested. This contact gives the proposed accountant the opportunity to inquire whether there are any reasons why the engagement should not be accepted.
- 320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Asking the existing or predecessor accountant to provide any known information of which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.

- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

*Communication with the existing accountant is not just a matter of professional courtesy. Its main purpose is to enable a professional accountant to ensure that there has been no action by the client which would on ethical grounds preclude the professional accountant from accepting the appointment and that, after considering all the facts, the client is someone for whom the professional accountant would wish to act. Thus, a professional accountant shall communicate with the existing accountant on being asked to accept appointment for any recurring work, except where the client has not previously had an accountant acting for them.*

### **Communicating with the Existing or Predecessor Accountant**

**320.5 A1** *The proposed accountant should write to the existing or predecessor accountant requesting all the information which ought to be made available to enable the proposed accountant to decide whether or not to accept the appointment. A proposed accountant will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor accountant.*

**R320.6** *If unable to communicate with the existing or predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats. If the existing accountant fails to reply, or fails to supply satisfactory replies, the proposed accountant shall generally send a letter by a recorded delivery service. The letter shall state that unless a reply is received within a stated period, say seven days, the proposed accountant will assume there are no matters of which he/she should be aware.*

*Any information supplied by the existing accountant shall be considered carefully by the proposed accountant before deciding to accept or reject the appointment.*

*The proposed accountant shall try to find out the reason for the change of accountant. The proposed accountant shall be careful that, by accepting an appointment, he/she is not assisting the client to act improperly or unlawfully.*

*For example, the proposed accountant may find that the existing accountant has been conscientious in his/her duty as an independent professional, but has encountered client opposition. The existing accountant may have declined to give way on what he/she considers to be a matter of principle. In such circumstances the proposed accountant shall generally decline the appointment.*

*It is recommended that the existing and proposed accountants communicate in writing. If oral discussions take place, each party shall make and retain their own contemporaneous record of matters discussed and decisions and agreements made.*

### **Communicating with the Proposed Accountant**

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

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



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

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

*If a client refuses permission to the existing accountant to discuss their affairs, the existing accountant shall inform the proposed accountant of this fact. The proposed accountant shall inform the client that he/she is not prepared to accept the appointment.*

*Where the existing accountant receives permission, he/she shall provide all reasonable information in response to a request from the proposed accountant. It is for the existing accountant to decide what information is reasonable and what he/she considers may be relevant to the proposed accountant's decision on whether or not to accept the appointment.*

*The existing accountant may not prevent the proposed accountant from acting on behalf of the client.*

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

### **Changes in Audit or Review Appointments**

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

- (a) If the client consents to the existing or predecessor accountant disclosing any such facts or other information, the existing or predecessor accountant shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the existing or predecessor accountant permission to discuss the client's affairs with the proposed accountant, the existing or predecessor accountant shall disclose this fact to the proposed accountant, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

### **Client and Engagement Continuance**

**R320.9** For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

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

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

- R320.10** When a professional accountant intends to use the work of an expert, the accountant shall determine whether the use is warranted.
- 320.10 A1 Factors to consider when a professional accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

### **Unpaid fees of previous accountant**

- 320.11 *The proposed accountant is not expected to refuse to act where there are unpaid fees owed to the existing accountant.*
- 320.12 *It is a matter for the proposed accountant's own judgement to decide how far he/she may properly go in assisting the existing accountant to recover fees.*

### **Transfer of books and papers**

- 320.13 *Once a new accountant has been appointed, or on otherwise ceasing to hold office, the former accountant shall ensure that all books and papers belonging to his/her former client which are in the former accountant's possession are promptly transferred, whether the new accountant or the client has requested them or not, except where the former accountant claims to exercise a lien or other security over them in respect of unpaid fees.*

### **Transfer of information**

- 320.14 *In order to ensure continuity of treatment of a client's affairs, the former accountant shall promptly provide the new accountant with all reasonable transfer information that the new accountant requests, free of charge.*
- 320.15 *All reasonable transfer information shall be provided even where there are unpaid fees.*
- 320.16 *"Reasonable transfer information" is defined as:*
- (a) a copy of the last set of accounts formally approved by the client; and*
  - (b) a detailed trial balance that is in agreement with the accounts referred to in (a) above.*
- 320.17 *Any information in addition to the reasonable transfer information, as defined above, is provided purely at the discretion of the former accountant, who may render a charge to the person requesting the information.*

## SECTION 321

### SECOND OPINIONS

#### Introduction

- 321.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 321.2 Providing a second opinion to an entity that is not an existing client might create a self-interest or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 321.3 A1 A professional accountant might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence.
- 321.3 A2 A factor that is relevant in evaluating the level of such a self-interest threat is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 321.3 A3 Examples of actions that might be safeguards to address such a self-interest threat include:
- With the client's permission, obtaining information from the existing or predecessor accountant.
  - Describing the limitations surrounding any opinion in communications with the client.
  - Providing the existing or predecessor accountant with a copy of the opinion.
- 321.3 A4 *Not at issue are opinions provided pursuant to litigation, expert testimony and assistance provided to other firms and their clients jointly.*
- 321.3 A5 *A professional accountant in public practice giving an opinion on the application of accounting standards or other standards or principles, relating to a hypothetical situation and not based on the specific facts or circumstances of a particular organisation, shall ensure that the nature of the opinion is made clear.*

##### *When Permission to Communicate Is Not Provided*

- R321.4** If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing or predecessor accountant, the accountant shall determine whether the accountant may provide the second opinion sought.

## **SECTION 330**

# **FEES AND OTHER TYPES OF REMUNERATION**

### **Introduction**

- 330.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

### **Application Material**

#### **Level of Fees**

- 330.3 A1 The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.
- 330.3 A2 A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
  - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
  - Having an appropriate reviewer review the work performed.
- 330.3 A5 *If, in the course of an investigation into allegations of unsatisfactory work, there is evidence of the work having been obtained or retained through quoting a fee that is not economic in terms of the factors mentioned above, that fact may be taken into account in considering the conduct of a professional accountant in public practice having regard to the fundamental principles.*
- 330.3 A6 *Letters of engagement shall state the fees to be charged or the basis upon which the fees are calculated.*
- 330.3 A7 *Where the letter of engagement is not explicit with regard to the basis on which fees are calculated, the professional accountant in public practice shall charge a fee which is fair and reasonable. This may have regard to any or all of the following to the extent that they are not referred to in the letter of engagement:*

- (a) *the seniority and professional expertise of the persons necessarily engaged on the work;*
- (b) *the time expended by each;*
- (c) *the degree of risk and responsibility which the work entails;*
- (d) *the urgency of the work to the client; and*
- (e) *the importance of the work to the client.*

## Contingent Fees

330.4 A1 **Contingent fees** are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

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

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

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

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

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

330.4 A5 *In order to preserve professional accountants' objectivity, fees shall not be charged on a percentage, contingency or similar basis, save where that course of action is generally accepted practice for certain specialised work. Particularly, professional accountants in public practice are reminded that fees charged in respect of expert or insolvency work may be subject to the requirements of local law.*

### **Management buy-out and raising venture capital**

- 330.4 A6 *There are circumstances, such as advising on a management buy-out or the raising of venture capital, where in some instances fees cannot realistically be charged save on a contingency basis, for example, where the ability of clients to pay is dependent upon the success or failure of the venture.*
- 330.4 A7 *Where work is subject to a contingency or percentage fee, the capacity in which the professional accountant has worked and the basis of his/her remuneration shall be made clear in any document upon which a third party may rely.*

### **Referral Fees or Commissions**

- 330.5 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee or receives a commission relating to a client. Such referral fees or commissions include, for example:
- A fee paid to another professional accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.
  - A fee received for referring a continuing client to another professional accountant or other expert where the existing accountant does not provide the specific professional service required by the client.
  - A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.
- 330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:
- Obtaining an advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
  - Disclosing to clients any referral fees or commission arrangements paid to, or received from, another professional accountant or third party for recommending services or products might address a self-interest threat.
- 330.5 A3 *A professional accountant in public practice may receive commission in respect of transactions effected for clients on the basis that this must be repaid in certain circumstances. In these circumstances, the professional accountant in public practice may agree with clients any one of the following options:*
- (a) *to delay refunding the clients' commission until the expiry of the term; or*
  - (b) *to place the commission into a designated deposit account until the expiry of the term and then to refund the commission to clients with interest; or*
  - (c) *to rebate the clients' commission annually over the term; or*
  - (d) *to request persons paying commission to pay only the commission due each year, retaining the balance; or*
  - (e) *to forgo all commission; or*
  - (f) *to instruct the persons offering commission to retain the commission for the benefit of clients' pension or other policies.*

- 330.5 A4 *Nothing in this Code prohibits a professional accountant in public practice from refunding the commission to clients either with or without clients' confirmation that they would reimburse the professional accountant in the event that the commission became repayable.*

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

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

### **Fee disputes**

- 330.7 *When a professional accountant in public practice becomes aware that he will render a fee note which is substantially different from fees rendered to the same client on earlier occasions for which the work would appear to be comparable, he shall explain to the client the reason for the variation.*
- 330.8 *To the extent that the increased fee reflects a charge for extra work, the reason for the extra work shall be explained in writing to the client. To the extent that the increased fee reflects an increase in disbursements or costs, this shall also be explained in writing to the client.*
- 330.9 *It is possible that the client has genuine doubts as to the propriety of the fee, and is not actuated by malice or lack of means. In such circumstances, the professional accountant in public practice is reminded that, on written application by both the parties to the dispute, ACCA can arrange for an arbitrator to be appointed to determine any dispute over fees charged.*
- 330.10 *A professional accountant in public practice shall be prepared to provide the client with reasonable explanation of the fees charged. The explanation shall be provided without charge and shall be sufficient to enable the client to understand the nature of the work carried out. A professional accountant in public practice shall also take all reasonable steps to resolve speedily any dispute which arises.*

## **SECTION 340**

# **INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY**

### **Introduction**

- 340.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

### **Requirements and Application Material**

#### **General**

- 340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between professional accountants and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment or other commercial opportunities.
  - Preferential treatment, rights or privileges.

#### **Inducements Prohibited by Laws and Regulations**

- R340.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The professional accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

#### **Inducements Not Prohibited by Laws and Regulations**

- 340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.



*Inducements with Intent to Improperly Influence Behavior*

- R340.7** A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- R340.8** A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- 340.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals.
- 340.9 A2 A breach of the fundamental principle of integrity arises when a professional accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.
- 340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:
- The nature, frequency, value and cumulative effect of the inducement.
  - Timing of when the inducement is offered relative to any action or decision that it might influence.
  - Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
  - Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
  - Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
  - The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
  - Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.
  - The degree of transparency with which the inducement is offered.
  - Whether the inducement was required or requested by the recipient.
  - The known previous behavior or reputation of the offeror.

### Consideration of Further Actions

- 340.10 A1 If the professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.
- 340.10 A2 Examples of actions that might be safeguards to address such threats include:
- Informing senior management of the firm or those charged with governance of the client regarding the offer.
  - Amending or terminating the business relationship with the client.

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

- 340.11 A1 The requirements and application material set out in the conceptual framework apply when a professional accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.
- 340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.
- 340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the professional accountant has concluded there is no actual or perceived intent to improperly influence behavior include:
- Self-interest threats
    - A professional accountant is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
  - Familiarity threats
    - A professional accountant regularly takes an existing or prospective client to sporting events.
  - Intimidation threats
    - A professional accountant accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.
- 340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 340.9 A3 for determining intent.
- 340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:
- Declining or not offering the inducement.
  - Transferring responsibility for the provision of any professional services to the client to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.
- 340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:
- Being transparent with senior management of the firm or of the client about offering or accepting an inducement.

- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the professional accountant with respect to the client from which the accountant accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

### **Immediate or Close Family Members**

**R340.12** A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the accountant to an existing or prospective client of the accountant.
- (b) To an immediate or close family member of the accountant by an existing or prospective client of the accountant.

**R340.13** Where the professional accountant becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the accountant or of an existing or prospective client of the accountant, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

340.13 A1 The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The accountant and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The accountant and the existing or prospective client.

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

340.13 A2 The application material in paragraph 340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the professional accountant, or of the existing or prospective client even if the immediate or close family member has followed the advice given pursuant to paragraph R340.13.

***Application of the Conceptual Framework***

- 340.14 A1 Where the professional accountant becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the fundamental principles might be created where:
- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to paragraph R340.13; or
  - (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the existing or prospective client exists.
- 340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

**Other Considerations**

- 340.15 A1 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.
- 340.15 A2 If a firm, network firm or an audit team member is being offered gifts or hospitality from an audit client, the requirement and application material set out in Section 420 apply.
- 340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

## SECTION 350

# CUSTODY OF CLIENT ASSETS

### Introduction

- 350.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behavior and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### Requirements and Application Material

#### Before Taking Custody

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

#### After Taking Custody

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

#### Clients' monies

- 350.6 *A professional accountant in public practice is strictly accountable for all clients' monies that the professional accountant receives.*
- 350.7 *In this section, the term "clients' monies" includes all monies received by a professional accountant in public practice to be held or disbursed by the professional accountant on the instructions of the persons from whom or on whose behalf they are received and includes insolvency monies.*

### **Clients' accounts**

- 350.8 *Clients' monies shall be paid without delay into a bank account, separate from other accounts of the firm.*
- 350.9 *Such accounts may be either general accounts or accounts in the name of the specific client. All such accounts shall in all cases include in their title the word "client". Any such bank accounts are referred to herein as "a client account".*
- 350.10 *Where it is anticipated that the monies of individual clients in excess of £10,000 or its equivalent will be held by the firm for more than 30 days, the money shall be paid into a separate bank account designated by the name of the client or number allocated to the client account.*
- 350.11 *The term "bank" is defined below.*

### **Opening a client bank account**

- 350.12 *Whenever a firm opens a client account, it shall give written notice in clear terms to the bank concerned as to the nature of the account.*
- 350.13 *The notice shall require the bank to acknowledge in writing that it accepts the terms of the notice.*

### **Payments into a client bank account**

- 350.14 *Where a firm receives cheques or drafts that include both clients' monies and other monies, it shall pay them into a client account.*
- 350.15 *Once the monies have been received into such a client account, the firm shall withdraw from that account such part of the sum received as can properly be transferred to an office account in accordance with the guidance set out below.*
- 350.16 *Save as referred to in paragraph 350.15 above, no monies other than clients' monies shall be paid into a client account.*

### **Withdrawals from a client bank account**

- 350.17 *The following may be withdrawn from a client bank account, provided that the sums withdrawn shall not exceed the total of the monies held for the time being in the account of the client concerned:*
- (a) monies properly required for a payment to or on behalf of a client;*
  - (b) monies properly required for or towards payment of debts due to the firm from a client, otherwise than in respect of fees or commissions earned by the firm;*
  - (c) monies properly required for or towards payment of fees or commissions payable to the firm by a client for work properly carried out by the firm;*
  - (d) monies drawn on a client's authority or in conformity with any contract between the firm and a client.*
- 350.18 *Monies shall not be withdrawn from a client bank account for or towards payment of fees or commissions payable under paragraph 350.17 above unless:*
- (a) the client has been notified in writing that monies held or received on the client's behalf will be applied against those fees or commissions, and the client has not disagreed; and*

(b) a principal of the firm has expressly authorised the withdrawal; and

(c) either:

(i) 30 days have elapsed since the date of delivery to the client of the notification; or

(ii) the precise amount to be withdrawn has been agreed with the client in writing or has been finally determined by a court or arbitrator.

350.19 A firm shall be careful to differentiate, both in its records and, where appropriate, in its use of client accounts, between monies held on behalf of clients in their personal capacity and those, with the knowledge of the firm, held on behalf of those same clients as trustees for others. A separate client account shall be opened to receive the trust monies of each separate trust.

350.20 Bank charges for maintaining client accounts shall be paid out of the firm's own account and not from any client account.

### **Fees paid in advance**

350.21 Fees paid by clients in advance for professional work agreed to be performed and clearly identifiable as such shall not be regarded as clients' monies for the purposes of this Code.

350.22 Professional accountants in public practice are reminded that, where professional work paid for in advance is not carried out, fees advanced by the client shall be returned to him/her. A professional accountant in public practice shall ensure that sufficient financial resources to meet any such repayment are available.

### **Interest payable on client account monies**

350.23 Subject to paragraph 350.24 below, in respect of all monies held by a firm on behalf of clients, the firm shall pay clients interest of not less than the amount that would have been earned by way of gross interest if all clients' monies held by the firm for clients had been kept in separate interest-bearing accounts at the small deposit rate with the bank concerned.

350.24 The obligation in paragraph 350.23 above may be over-ridden by express written agreement between the firm and a client. For instance, clients could agree to forgo sums of interest of less than, say, UK £10, or in respect of bank credits until they have been cleared.

350.25 Interest on trust accounts shall be paid and the requirements of paragraphs 350.23 and 350.24 above are not applicable to trust monies.

### **Monies held by the firm as stakeholder**

350.26 Monies held by a professional accountant as stakeholder shall be regarded as clients' monies and shall be paid into a separate bank account maintained for the purpose or into a client bank account.

### **Maintaining records**

- 350.27 *A firm shall at all times maintain accurate records and controls (e.g. by way of reconciliations) so as to show clearly the monies it has received, held, and paid on account of their clients, and the details of any other monies dealt with by them through a client account, clearly distinguishing the monies of each client from the monies of other clients and from the firm's monies.*
- 350.28 *A professional accountant shall maintain such records for a period of not less than six years from the date of the last transaction recorded.*

### **Fees and fee disputes**

- 350.29 *The attention of professional accountants is drawn to the guidance on fees contained in Section 330, Fees and other types of remuneration.*
- 350.30 *A professional accountant shall not withhold due payment out of monies to clients for the sole reason that a dispute exists in relation to fees.*

### **Bank**

- 350.31 *The term "bank" comprises an institution authorised within the meaning of the Banking Act 1987 of the United Kingdom, the Bank of England, the central bank of another member state of the European Community, a building society within the meaning of the Building Societies Act 1986 of the United Kingdom (which has adopted the power to provide unrestricted money transaction services) and equivalent institutions around the world.*

### **Untraceable funds**

- 350.32 *In exceptional circumstances client money may be withdrawn from a client account on the written authorisation of ACCA, which may impose the condition that the money be paid by the professional accountant to a charity which gives an indemnity against any legitimate claim subsequently made for the money in question.*



## **SECTION 360**

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

### **Introduction**

- 360.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 360.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

### **Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations**

- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

## Requirements and Application Material

### General

360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

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

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R360.6** In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

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

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

360.7 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

360.7 A3 This section does not address:

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

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

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

360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The client;
- (b) An individual charged with governance of the entity;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the client.

### **Responsibilities of All Professional Accountants**

**R360.9** Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

### **Audits of Financial Statements**

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

**R360.10** If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

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

360.10 A2 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

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

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

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

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

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

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

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

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

### *Addressing the Matter*

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

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

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

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

**R360.15** The professional accountant shall comply with applicable:

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

360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

## Communication with Respect to Groups

**R360.16** Where a professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

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

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

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the professional accountant's firm or network.

**R360.17** Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or

- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

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

- R360.18** If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor.
- 360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing work at the components.

### *Determining Whether Further Action Is Needed*

- R360.19** The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.
- 360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:
- The response is timely.
  - The non-compliance or suspected non-compliance has been adequately investigated.
  - Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
  - Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
  - Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
  - The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.
- R360.20** In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.
- 360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:
- The legal and regulatory framework.
  - The urgency of the situation.
  - The pervasiveness of the matter throughout the client.

- Whether the professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

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

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

**R360.21** The professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

360.21 A1 Further action that the professional accountant might take includes:

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

360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, withdrawal might be the only available course of action.

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

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

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

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

- 360.24 A1 As assessment of the matter might involve complex analysis and judgments, the professional accountant might consider:
- Consulting internally.
  - Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.
  - Consulting on a confidential basis with a regulatory or professional body such as ACCA.

### **Determining Whether to Disclose the Matter to an Appropriate Authority**

- 360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.
- 360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:
- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
  - The entity is regulated and the matter is of such significance as to threaten its license to operate.
  - The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
  - It is likely that the entity would sell products that are harmful to public health or safety.
  - The entity is promoting a scheme to its clients to assist them in evading taxes.
- 360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:
- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
  - Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
  - Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals.

- R360.26** If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.



### *Imminent Breach*

**R360.27** In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

### *Documentation*

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

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing standards. ISAs, for example, require a professional accountant performing an audit of financial statements to:

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

## **Professional Services Other than Audits of Financial Statements**

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

**R360.29** If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

- 360.29 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- 360.29 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm or a network firm, ACCA or another professional body, or with legal counsel.
- R360.30** If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management. If the accountant has access to those charged with governance, the accountant shall also discuss the matter with them where appropriate.
- 360.30 A1 The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.
- 360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
  - The individuals actually or potentially involved.
  - The likelihood of collusion.
  - The potential consequences of the matter.
  - Whether that level of management is able to investigate the matter and take appropriate action.

### *Communicating the Matter to the Entity's External Auditor*

- R360.31** If the professional accountant is performing a non-audit service for:
- (a) An audit client of the firm; or
  - (b) A component of an audit client of the firm,
- the accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.
- R360.32** If the professional accountant is performing a non-audit service for:
- (a) An audit client of a network firm; or
  - (b) A component of an audit client of a network firm,
- the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

**R360.33** If the professional accountant is performing a non-audit service for a client that is not:

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

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

### Relevant Factors to Consider

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

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

### Purpose of Communication

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

### *Considering Whether Further Action Is Needed*

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

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

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

360.36 A2 Further action by the professional accountant might include:

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

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

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

**R360.37** If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

### *Imminent Breach*

**R360.38** In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

### *Seeking Advice*

360.39 A1 The professional accountant might consider:

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

### *Documentation*

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

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.36.

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## **INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)**

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

#### **SECTION 400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

##### **Introduction**

###### **General**

- 400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.
- 400.2 This Part applies to both audit and review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, [review team](#), review engagement, review client, and review engagement report.
- 400.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.
- 400.4 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel), maintain independence where required by relevant ethics requirements. ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.
- 400.5 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
  - (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit team member’s, integrity, objectivity or professional skepticism has been compromised.

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

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

400.7 This Part describes:

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

### **Public Interest Entities**

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

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

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

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

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

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

## **Requirements and Application Material**

### **General**

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

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

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

**Related Entities**

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

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

**Period During which Independence Is Required**

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

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

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

**R400.31** If an entity becomes an audit 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:

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

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

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

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



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

**Communication with Those Charged with Governance**

- 400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.
- 400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:
- (a) Consider the firm's judgments in identifying and evaluating threats;
  - (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
  - (c) Take appropriate action.
- Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

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

**Network Firms**

- 400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.
- R400.51** A network firm shall be independent of the audit clients of the other firms within the network as required by this Part.
- 400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.
- R400.52** When associated with a larger structure of other firms and entities, a firm shall:
- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
  - (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
  - (c) Apply such judgment consistently throughout such a larger structure.
- R400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:
- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
  - (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);

- (c)** The entities within the structure share common quality control policies and procedures. (Ref: Para. 400.53 A4);
- (d)** The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e)** The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f)** The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

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

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

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

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

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

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

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

400.53 A8 Professional resources include:

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

- Training courses and facilities. (Ref: Para. R400.53(f)).

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

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

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

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

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

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

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

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

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

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

**Mergers and Acquisitions**

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

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

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

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

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

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

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

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

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

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

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be

permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the [engagement quality control review](#); and

- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a professional accountant review the audit or non-assurance work as appropriate.
- Having a professional accountant, 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.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

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

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

### *If Objectivity Remains Compromised*

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

### *Documentation*

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

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

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

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

### *When a Firm Identifies a Breach*

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

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
  - (i) Comply with those requirements; and
  - (ii) Consider reporting the breach to ACCA or another professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
  - (i) The engagement partner;
  - (ii) Those with responsibility for the policies and procedures relating to independence;
  - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
  - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
  - (i) Whether to end the audit engagement; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

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

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

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report 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 engagement.

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

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

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

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

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

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

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

***Communication of Breaches to Those Charged with Governance***

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

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

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

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

***Breaches Before the Previous Audit Report Was Issued***

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

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

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

***Documentation***

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

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

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

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



## SECTION 410

### FEES

#### Introduction

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

#### Requirements and Application Material

##### Fees – Relative Size

###### *All Audit Clients*

- 410.3 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 410.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
  - Whether the firm is well established or new.
  - The significance of the client qualitatively and/or quantitatively to the firm.
- 410.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.
- 410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.
- 410.3 A5 Factors that are relevant in evaluating the level of such threats include:
- The significance of the client qualitatively and/or quantitatively to the partner or office.
  - The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.
- 410.3 A6 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:
- Increasing the client base of the partner or the office to reduce dependence on the audit client.
  - Having an appropriate reviewer who did not take part in the audit engagement review the work.

## Audit Clients that are Public Interest Entities

- R410.4** Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:
- (a) Disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and
  - (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:
    - (i) Prior to the audit opinion being issued on the second year's financial statements, a professional accountant, 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 body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
    - (ii) After the audit opinion on the second year's financial statements has been issued, and before the audit opinion being issued on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body performs a review of the second year's audit that is equivalent to an engagement quality control review ("a post-issuance review").
- R410.5** When the total fees described in paragraph R410.4 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.
- R410.6** If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:
- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and
  - (b) Comply with paragraphs R410.4(b) and R410.5.

## Fees – Overdue

- 410.7 A1 A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.
- 410.7 A2 Examples of actions that might be safeguards to address such a self-interest threat include:
- Obtaining partial payment of overdue fees.
  - Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

- R410.8** When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:
- (a) Whether the overdue fees might be equivalent to a loan to the client; and
  - (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

### Contingent Fees

- 410.9 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.
- R410.10** A firm shall not charge directly or indirectly a contingent fee for an audit engagement.
- R410.11** A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, 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 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 judgment related to the audit of a material amount in the financial statements.
- 410.12 A1 Paragraphs R410.10 and R410.11 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, a self-interest threat might still be created.
- 410.12 A2 Factors that are relevant in evaluating the level of such a threat include:
- The range of possible fee amounts.
  - Whether an appropriate authority determines the outcome on which the contingent fee depends.
  - Disclosure to intended users of the work performed by the firm and the basis of remuneration.
  - The nature of the service.
  - The effect of the event or transaction on the financial statements.
- 410.12 A3 Examples of actions that might be safeguards to address such a self-interest threat include:
- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm.
  - Obtaining an advance written agreement with the client on the basis of remuneration.

## SECTION 411

# COMPENSATION AND EVALUATION POLICIES

### Introduction

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

### Requirements and Application Material

#### General

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

## SECTION 420

### GIFTS AND HOSPITALITY

#### Introduction

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

#### Requirement and Application Material

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

## **SECTION 430**

### **ACTUAL OR THREATENED LITIGATION**

#### **Introduction**

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

#### **Application Material**

##### **General**

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

## SECTION 510

### FINANCIAL INTERESTS

#### Introduction

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

#### Requirements and Application Material

##### General

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) The financial interests are immaterial to the firm, the network firm, the audit team member and that individual's immediate family member and the audit client, as applicable; or
- (ii) The audit client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit team member, the individual or that individual's immediate family member shall either:



- (i) Dispose of the interest; or
- (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

### **Financial Interests Received Unintentionally**

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

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

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

#### *Immediate Family*

- 510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity.
- 510.10 A2 Factors that are relevant in evaluating the level of such threats include:
- The role of the individual on the audit team.
  - Whether ownership of the entity is closely or widely held.
  - Whether the interest allows the investor to control or significantly influence the entity.
  - The materiality of the financial interest.
- 510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit team member with the financial interest from the audit team.
- 510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

### ***Close Family***

- 510.10 A5 A self-interest threat might be created if an audit team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit client.
- 510.10 A6 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the audit team member and the close family member.
  - Whether the financial interest is direct or indirect.
  - The materiality of the financial interest to the close family member.
- 510.10 A7 Examples of actions that might eliminate such a self-interest threat include:
- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
  - Removing the individual from the audit team.
- 510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

### ***Other Individuals***

- 510.10 A9 A self-interest threat might be created if an audit team member knows that a financial interest in the audit client is held by individuals such as:
- Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
  - Individuals with a close personal relationship with an audit team member.
- 510.10 A10 Factors that are relevant in evaluating the level of such a threat include:
- The firm's organizational, operating and reporting structure.
  - The nature of the relationship between the individual and the audit team member.
- 510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit team member with the personal relationship from the audit team.
- 510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the audit team member from any significant decision-making concerning the audit engagement.
  - Having an appropriate reviewer review the work of the audit team member.

### ***Retirement Benefit Plan of a Firm or Network Firm***

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

## SECTION 511

# LOANS AND GUARANTEES

### Introduction

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

### Requirements and Application Material

#### General

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

#### Loans and Guarantees with an Audit Client

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

#### Loans and Guarantees with an Audit Client that Is a Bank or Similar Institution

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

*Deposits or Brokerage Accounts*

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

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

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

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

## SECTION 520 BUSINESS RELATIONSHIPS

### Introduction

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

### Requirements and Application Material

#### General

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

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

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

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

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

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

### **Buying Goods or Services**

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

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

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

## SECTION 521

# FAMILY AND PERSONAL RELATIONSHIPS

### Introduction

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

### Requirements and Application Material

#### General

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

#### Immediate Family of an Audit Team Member

- 521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.
- 521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the audit team member.
- 521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.
- 521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.
- R521.5** An individual shall not participate as an audit team member when any of that individual's immediate family:
- (a) Is a director or officer of the audit client;
  - (b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion; or
  - (c) Was in such position during any period covered by the engagement or the financial statements.

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

- 521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an audit team member is:
- (a) A director or officer of the audit 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.
- 521.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the audit team member and the close family member.
  - The position held by the close family member.
  - The role of the audit team member.
- 521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.
- 521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the close family member.

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

- R521.7** An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the audit 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.
- 521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:
- The nature of the relationship between the individual and the audit team member.
  - The position the individual holds with the client.
  - The role of the audit team member.
- 521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.
- 521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the individual with whom the audit team member has a close relationship.



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

- R521.8** Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:
- (a) A partner or employee of the firm or network firm who is not an audit team member; and
  - (b) A director or officer of the audit client or an employee of the audit client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.
- 521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:
- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
  - The degree of interaction of the partner or employee of the firm with the audit team.
  - The position of the partner or employee within the firm.
  - The position the individual holds with the client.
- 521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:
- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement.
  - Having an appropriate reviewer review the relevant audit work performed.

## **SECTION 522**

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

#### **Introduction**

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

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

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

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

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

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

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

- 522.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position the individual held with the client.
  - The length of time since the individual left the client.
  - The role of the audit team member.
- 522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the audit team member.

## **SECTION 523**

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

### **Introduction**

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

### **Requirements and Application Material**

#### **Service as Director or Officer**

- R523.3** A partner or employee of the firm or a network firm shall not serve as a director or officer of an audit client of the firm.

#### **Service as Company Secretary**

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

## SECTION 524

### EMPLOYMENT WITH AN AUDIT CLIENT

#### Introduction

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

#### Requirements and Application Material

##### All Audit Clients

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

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

- R524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:

- (a) A former partner who has joined an audit client of the firm; or
- (b) A former audit team member who has joined the audit client,

if either has joined the audit client as:

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

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

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

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

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

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

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

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

##### **Key Audit Partners**

- R524.6** Subject to paragraph R524.8, if an individual who was a key audit partner with respect to an audit client that is a public interest entity joins the client as:
- (a) A director or officer; or
  - (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

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

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

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

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

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

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

#### **Business Combinations**

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

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

## SECTION 525

# TEMPORARY PERSONNEL ASSIGNMENTS

### Introduction

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

### Requirements and Application Material

#### General

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

## **SECTION 540**

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

### **Introduction**

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

### **Requirements and Application Material**

#### **All Audit Clients**

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



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

(b) In relation to the audit client:

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

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

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

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

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

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

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

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

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

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

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or

(c) Any other key audit partner role.

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

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

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

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

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

**R540.8** If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

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

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

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

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

### Cooling-off Period

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

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

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

### Service in a Combination of Key Audit Partner Roles

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

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

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

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

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

### Service at a Prior Firm

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

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

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

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

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

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

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

## SECTION 600

# PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

### Introduction

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

### Requirements and Application Material

#### General

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

#### Evaluating Threats

- 600.5 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit client include:
- The nature, scope and purpose of the service.
  - The degree of reliance that will be placed on the outcome of the service as part of the audit.
  - The legal and regulatory environment in which the service is provided.
  - Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:

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

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

### **Materiality in Relation to Financial Statements**

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

### **Multiple Non-Assurance Services Provided to the Same Audit Client**

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

### **Addressing Threats**

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

600.6 A2 Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.

600.6 A3 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to audit clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats

to independence to an acceptable level. In some situations, when a threat is created by providing a non-assurance service to an audit client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit engagement.

***Prohibition on Assuming Management Responsibilities***

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

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

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

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

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

600.7 A4 Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. R600.7 to 600.7 A3).

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

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

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

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

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

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

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

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

***Considerations for Certain Related Entities***

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

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



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

### **Introduction**

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

### **Requirements and Application Material**

#### **All Audit Clients**

- 601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:
- Preparing accounting records and financial statements.
  - Recording transactions.
  - Payroll services.
- 601.3 A2 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:
- Determining accounting policies and the accounting treatment in accordance with those policies.
  - Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
    - o Purchase orders.
    - o Payroll time records.
    - o Customer orders.
  - Originating or changing journal entries.
  - Determining or approving the account classifications of transactions.
- 601.3 A3 The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:
- Applying accounting standards or policies and financial statement disclosure requirements.
  - Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
  - Proposing adjusting journal entries.

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

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

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

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

### ***Accounting and Bookkeeping Services that are Routine or Mechanical***

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

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

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

**R601.5** A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.

601.5 A1 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit client include:

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

*Audit Clients that are Public Interest Entities*

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

## **SUBSECTION 602 – ADMINISTRATIVE SERVICES**

### **Introduction**

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

### **Application Material**

#### **All Audit Clients**

- 602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.
- 602.3 A2 Examples of administrative services include:
- Word processing services.
  - Preparing administrative or statutory forms for client approval.
  - Submitting such forms as instructed by the client.
  - Monitoring statutory filing dates, and advising an audit client of those dates.

## SUBSECTION 603 – VALUATION SERVICES

### Introduction

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

### Requirements and Application Material

#### All Audit Clients

- 603.3 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
- 603.3 A2 If a firm or network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.9 A1 to 604.9 A5, relating to such services, applies.
- 603.3 A3 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit client include:
- The use and purpose of the valuation report.
  - Whether the valuation report will be made public.
  - The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
  - The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
  - Whether the valuation will have a material effect on the financial statements.
  - The extent and clarity of the disclosures related to the valuation in the financial statements.
  - The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.
- 603.3 A4 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
  - Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

*Audit Clients that are Not Public Interest Entities*

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

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

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

*Audit Clients that are Public Interest Entities*

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

## **SUBSECTION 604 – TAX SERVICES**

### **Introduction**

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

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

### **Requirements and Application Material**

#### **All Audit Clients**

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

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

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

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

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

## **Tax Return Preparation**

### *All Audit Clients*

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

604.4 A2 Tax return preparation services involve:

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

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

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

### *All Audit Clients*

604.5 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.

604.5 A2 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing such calculations for an audit client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

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

604.5 A3 Examples of actions that might be safeguards to address such a self-review threat when the audit client is not a public interest entity include:

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

## Audit Clients that are Public Interest Entities

**R604.6** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

604.6 A1 The examples of actions that might be safeguards in paragraph 604.5 A3 to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion.

## Tax Planning and Other Tax Advisory Services

### *All Audit Clients*

604.7 A1 Providing tax planning and other tax advisory services might create a self-review or advocacy threat.

604.7 A2 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

604.7 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax planning and other tax advisory services to audit clients include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, whether the advice provided as a result of the tax planning and other tax advisory services:

- o Is clearly supported by a tax authority or other precedent.
- o Is an established practice.
- o Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice will have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

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

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

- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

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

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

- (a) The audit 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.

### **Tax Services Involving Valuations**

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

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

604.9 A2 A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

604.9 A3 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in evaluating the level of self-review or advocacy threats created by providing those services to an audit client:

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

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

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

604.9 A5 A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.



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

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

- 604.10 A1 Providing assistance in the resolution of tax disputes to an audit client might create a self-review or advocacy threat.
- 604.10 A2 A tax dispute might reach a point when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court.
- 604.10 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes include:
- The role management plays in the resolution of the dispute.
  - The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.
  - Whether the advice that was provided is the subject of the tax dispute.
  - The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
  - Whether the proceedings are conducted in public.
- 604.10 A4 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
  - Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

### **Resolution of Tax Matters Involving Acting as an Advocate**

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

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

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

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

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

## SUBSECTION 605 – INTERNAL AUDIT SERVICES

### Introduction

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

### Requirements and Application Material

#### All Audit Clients

- 605.3 A1 Internal audit services involve assisting the audit client in the performance of its internal audit activities. Internal audit activities might include:
- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
  - Examining financial and operating information by:
    - o Reviewing the means used to identify, measure, classify and report financial and operating information.
    - o Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
  - Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
  - Reviewing compliance with:
    - o Laws, regulations and other external requirements.
    - o Management policies, directives and other internal requirements.
- 605.3 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance.
- R605.4** When providing an internal audit service to an audit client, the firm shall be satisfied that:
- (a) The client designates an appropriate and competent resource, preferably within senior management, to:
    - (i) Be responsible at all times for internal audit activities; and
    - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control.
  - (b) The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
  - (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;

- (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.4 A1 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.

605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

605.4 A3 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A4 Factors that are relevant in evaluating the level of such a self-review threat include:

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.

- The degree of reliance that the audit team will place on the work of the internal audit service, including in the course of an external audit.

605.4 A5 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

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

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

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

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

### **Introduction**

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

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

### **Requirements and Application Material**

#### **All Audit Clients**

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

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

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

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

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client’s needs is not significant; and
- (d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

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

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

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

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

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

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

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

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

## **SUBSECTION 607 – LITIGATION SUPPORT SERVICES**

### **Introduction**

- 607.1 Providing certain litigation support services to an audit client might create a self-review or advocacy threat.
- 607.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

### **Application Material**

#### **All Audit Clients**

- 607.3 A1 Litigation support services might include activities such as:
- Assisting with document management and retrieval.
  - Acting as a witness, including an expert witness.
  - Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- 607.3 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:
- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
  - The nature and characteristics of the service.
  - The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion.
- 607.3 A3 An example of an action that might be a safeguard to address such a self-review or advocacy threat is using a professional who was not an audit team member to perform the service.
- 607.3 A4 If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

## **SUBSECTION 608 – LEGAL SERVICES**

### **Introduction**

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

## Requirements and Application Material

### All Audit Clients

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

### *Acting in an Advisory Role*

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

### *Acting as General Counsel*

- R608.5** A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client.
- 608.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

### *Acting in an Advocacy Role*

- R608.6** A firm or a network firm shall not act in an advocacy role for an audit 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.
- 608.6 A1 Examples of actions that might be safeguards to address a self-review threat created when acting in an advocacy role for an audit client when the amounts involved are not material to the financial statements on which the firm will express an opinion include:

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

## SUBSECTION 609 – RECRUITING SERVICES

### Introduction

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

### Requirements and Application Material

#### All Audit Clients

- 609.3 A1 Recruiting services might include activities such as:
- Developing a job description.
  - Developing a process for identifying and selecting potential candidates.
  - Searching for or seeking out candidates.
  - Screening potential candidates for the role by:
    - o Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
    - o Undertaking reference checks of prospective candidates.
    - o Interviewing and selecting suitable candidates and advising on candidates' competence.
  - Determining employment terms and negotiating details, such as salary, hours and other compensation.
- 609.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does not assume a management responsibility:
- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
  - Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.
- R609.4** When a firm or network firm provides recruiting services to an audit client, the firm shall be satisfied that:
- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
  - (b) The client makes all management decisions with respect to the hiring process, including:



- Determining the suitability of prospective candidates and selecting suitable candidates for the position.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

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

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

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

### *Recruiting Services that are Prohibited*

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

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

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

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

### **Introduction**

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

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

### **Requirements and Application Material**

#### **All Audit Clients**

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

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.

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

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

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

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

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

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

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

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

- (a) The audit 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.

## SECTION 800

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

### Introduction

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

### Requirements and Application Material

#### General

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

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

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

### **Public Interest Entities**

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

### **Related Entities**

**R800.8** When the firm performs an eligible audit engagement, references to "audit client" in Part 4A do not need to include its related entities. However, when the audit 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 team shall include that related entity when identifying, evaluating and addressing threats to independence.

### **Networks and Network Firms**

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

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

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

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

**800.10 A1** Others within a firm who can directly influence the outcome of the audit engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit 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).

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

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

### **Employment with an Audit Client**

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

### **Providing Non-Assurance Services**

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

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

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

## **SECTION 900 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

### **Introduction**

#### **General**

- 900.1 This Part applies to assurance engagements other than audit and review engagements (referred to as “assurance engagements” in this Part). Examples of such engagements include:
- An audit of specific elements, accounts or items of a financial statement.
  - Performance assurance on a company’s key performance indicators.
- 900.2 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.
- 900.3 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. ISAEs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with ISQC 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.
- 900.4 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
  - (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional skepticism has been compromised.

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

- 900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.
- 900.6 This Part describes:
- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
  - (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
  - (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

## **Description of Other Assurance Engagements**

- 900.7 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. In an assurance engagement, the firm 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. The Assurance Framework describes the elements and objectives of an assurance engagement and identifies engagements to which ISAEs apply. For a description of the elements and objectives of an assurance engagement, refer to the Assurance Framework.
- 900.8 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, the Assurance Framework states that 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 or CoCo (criteria), to internal control, a process (subject matter).
- 900.9 Assurance engagements might be assertion-based or direct reporting. In either case, they involve three separate parties: a firm, a responsible party and intended users.
- 900.10 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party. The subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 900.11 In a direct reporting assurance engagement, the firm:
- (a) Directly performs the evaluation or measurement of the subject matter; or
  - (b) 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.



## Reports that Include a Restriction on Use and Distribution

- 900.12 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

## Audit and Review Engagements

- 900.13 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

## Requirements and Application Material

### General

- R900.14** A firm performing an assurance engagement shall be independent.
- R900.15** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

### Network Firms

- R900.16** When a firm has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.
- 900.16 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

### Related Entities

- R900.17** When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

## Types of Assurance Engagements

### Assertion-Based Assurance Engagements

- R900.18** When performing an assertion-based assurance engagement:
- (a) The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter information, and which might be responsible for the subject matter) as set out in this Part. The independence requirements set out in this Part prohibit certain relationships between assurance team members and (i) directors or officers, and (ii) individuals at the client in a position to exert significant influence over the subject matter information;
  - (b) The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement; and

- (c) The firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

**R900.19** When performing an assertion-based assurance engagement where the responsible party is responsible for the subject matter information but not the subject matter:

- (a) The assurance team members and the firm shall be independent of the party responsible for the subject matter information (the assurance client); and
- (b) The firm shall evaluate and address any threats the firm has reason to believe are created by interests and relationships between an assurance team member, the firm, a network firm and the party responsible for the subject matter.

900.19 A1 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 might not be responsible for the subject matter. An example might be when a firm 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. In this case, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

### ***Direct Reporting Assurance Engagements***

**R900.20** When performing a direct reporting assurance engagement:

- (a) The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter); and
- (b) The firm shall evaluate and address any threats to independence the firm has reason to believe are created by network firm interests and relationships.

### ***Multiple Responsible Parties***

900.21 A1 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 Part to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

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

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

**[Paragraphs 900.22 to 900.29 are intentionally left blank]**

## Period During which Independence Is Required

**R900.30** Independence, as required by this Part, shall be maintained during both:

- (a) The **engagement period**; and
- (b) The period covered by the subject matter information.

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

**R900.31** If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

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

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and non-assurance work as appropriate.

**R900.33** If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

- (a) The firm is satisfied that:
  - (i) The non-assurance service will be completed within a short period of time; or
  - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

**[Paragraphs 900.34 to 900.39 are intentionally left blank]**

## **General Documentation of Independence for Assurance Engagements Other than Audit and Review Engagements**

- R900.40** A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:
- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
  - (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

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

**[Paragraphs 900.41 to 900.49 are intentionally left blank]**

## **Breach of an Independence Provision for Assurance Engagements Other than Audit and Review Engagements**

### *When a Firm Identifies a Breach*

- R900.50** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:
- (a) End, suspend or eliminate the interest or relationship that created the breach;
  - (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
  - (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

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

- R900.51** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

- R900.52** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

**R900.53** If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

*Documentation*

**R900.54** In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

**R900.55** If the firm continues with the assurance engagement, it shall document:

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

## **SECTION 905 FEES**

### **Introduction**

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

### **Requirements and Application Material**

#### **Fees – Relative Size**

- 905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 905.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
  - Whether the firm is well established or new.
  - The significance of the client qualitatively and/or quantitatively to the firm.
- 905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.
- 905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Increasing the client base of the partner to reduce dependence on the assurance client.
  - Having an appropriate reviewer who was not an assurance team member review the work.

#### **Fees – Overdue**

- 905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

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

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

**R905.5** When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

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

### Contingent Fees

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

**R905.7** A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

**R905.8** A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.9 A1 Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

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

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

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

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

# SECTION 906

## GIFTS AND HOSPITALITY

### Introduction

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

### Requirement and Application Material

- R906.3**     A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.
- 906.3 A1     Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 906.3 A2     The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.



## SECTION 907

# ACTUAL OR THREATENED LITIGATION

### Introduction

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

### Application Material

#### General

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

## SECTION 910 FINANCIAL INTERESTS

### Introduction

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

### Requirements and Application Material

#### General

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

#### Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

- R910.4** A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
- (a) The firm; or
  - (b) An assurance team member or any of that individual’s immediate family.

#### Financial Interests in an Entity Controlling an Assurance Client

- R910.5** When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual’s immediate family shall hold a direct or material indirect financial interest in that entity.

## Financial Interests Held as Trustee

**R910.6** Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

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

## Financial Interests Received Unintentionally

**R910.7** If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- (a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

## Financial Interests – Other Circumstances

### *Close Family*

910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.

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

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

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

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

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

***Other Individuals***

- 910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:
- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
  - Individuals with a close personal relationship with an assurance team member.
- 910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.
- 910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
  - Having an appropriate reviewer review the work of the assurance team member.

## SECTION 911

# LOANS AND GUARANTEES

### Introduction

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

### Requirements and Application Material

#### General

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

#### Loans and Guarantees with an Assurance Client

- R911.4** A firm, an assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:
- (a) The firm or the individual making the loan or guarantee, as applicable; and
  - (b) The client.

#### Loans and Guarantees with an Assurance Client that Is a Bank or Similar Institution

- R911.5** A firm, an assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.
- 911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.
- 911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

*Deposit or Brokerage Accounts*

**R911.6** A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

**Loans and Guarantees with an Assurance Client that Is Not a Bank or Similar Institution**

**R911.7** A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

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

## SECTION 920 BUSINESS RELATIONSHIPS

### Introduction

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

### Requirements and Application Material

#### General

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

#### Firm, Assurance Team Member or Immediate Family Business Relationships

- R920.4** A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

#### Buying Goods or Services

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

## SECTION 921

# FAMILY AND PERSONAL RELATIONSHIPS

### Introduction

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

### Requirements and Application Material

#### General

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

#### Immediate Family of an Assurance Team Member

- 921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the subject matter of the engagement.
- 921.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the assurance team member.
- 921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R921.5** An individual shall not participate as an assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the assurance client;
  - (b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or
  - (c) Was in such a position during any period covered by the engagement or the subject matter information.



### **Close Family of an Assurance Team Member**

- 921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:
- (a) A director or officer of the assurance client; or
  - (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.
- 921.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the assurance team member and the close family member.
  - The position held by the close family member.
  - The role of the assurance team member.
- 921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

### **Other Close Relationships of an Assurance Team Member**

- R921.7** An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the assurance client; or
  - (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.
- 921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:
- The nature of the relationship between the individual and the assurance team member.
  - The position the individual holds with the client.
  - The role of the assurance team member.
- 921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

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

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

- (a) A partner or employee of the firm who is not an assurance team member;  
and
- (b) 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.

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

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

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

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

## SECTION 922

### RECENT SERVICE WITH AN ASSURANCE CLIENT

#### Introduction

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

#### Requirements and Application Material

##### Service During the Period Covered by the Assurance Report

- R922.3** The assurance team shall not include an individual who, during the period covered by the assurance report:
- (a) Had served as a director or officer of the assurance client; or
  - (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

##### Service Prior to the Period Covered by the Assurance Report

- 922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:
- (a) Had served as a director or officer of the assurance client; or
  - (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

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

- 922.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position the individual held with the client.
  - The length of time since the individual left the client.
  - The role of the assurance team member.

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

## **SECTION 923**

### **SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT**

#### **Introduction**

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

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

##### **Service as Director or Officer**

- R923.3** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

##### **Service as Company Secretary**

- R923.4** A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
  - (b) Management makes all decisions; and
  - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-Assurance Services to an Assurance Client*.)

## SECTION 924

# EMPLOYMENT WITH AN ASSURANCE CLIENT

### Introduction

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

### Requirements and Application Material

#### General

- 924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:
- A director or officer of the assurance client.
  - An employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

#### *Former Partner or Assurance Team Member Restrictions*

- R924.4** If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:
- (a)** A director or officer; or
- (b)** An employee in a position to exert significant influence over the subject matter information of the assurance engagement,
- the individual shall not continue to participate in the firm's business or professional activities.
- 924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.
- 924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.
- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
  - Any involvement the individual will have with the assurance team.
  - The length of time since the individual was an assurance team member or partner of the firm.
  - The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

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

***Assurance Team Members Entering Employment Negotiations with a Client***

**R924.5** A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

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

## **SECTION 940**

# **LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT**

### **Introduction**

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

### **Requirements and Application Material**

#### **General**

- 940.3 A1 A familiarity threat might be created as a result of an individual's long association with:
- (a) The assurance client;
  - (b) The assurance client's senior management; or
  - (c) The subject matter and subject matter information of the assurance engagement.
- 940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- The nature of the assurance engagement.
  - How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
  - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
  - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
  - The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
  - The nature, frequency and extent of interaction between the individual and the assurance client.

- Whether the nature or complexity of the subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the individual who is the responsible party.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

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

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

**R940.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

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

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.



## **SECTION 950**

# **PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS**

### **Introduction**

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### **Requirements and Application Material**

#### **General**

- R950.3** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.
- 950.3 A1 The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.
- 950.3 A2 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

#### **Evaluating Threats**

- 950.4 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:
- The nature, scope and purpose of the service.
  - The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
  - The legal and regulatory environment in which the service is provided.
  - Whether the outcome of the service will affect matters reflected in the subject matter or subject matter information of the assurance engagement, and, if so:
    - The extent to which the outcome of the service will have a material or significant effect on the subject matter of the assurance engagement.
    - The extent of the assurance client's involvement in determining significant matters of judgment.
  - The level of expertise of the client's management and employees with respect to the type of service provided.

### Materiality in Relation to an Assurance Client's Information

- 950.4 A2 The concept of materiality in relation to an assurance client's information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

### Multiple Non-Assurance Services Provided to the Same Assurance Client

- 950.4 A3 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

### Addressing Threats

- 950.5 A1 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.

### Prohibition on Assuming Management Responsibilities

- R950.6** A firm shall not assume a management responsibility related to the subject matter or subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter or subject matter information of the assurance engagement provided by the firm.
- 950.6 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the subject matter or subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.
- 950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
  - Hiring or dismissing employees.
  - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.

- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).

**R950.7** To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are related to the subject matter or subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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

(i) The objectives, nature and results of the services; and

(ii) The respective client and firm responsibilities.

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

(b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

### ***Other Considerations Related to Providing Specific Non-Assurance Services***

950.8 A1 A self-review threat might be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

(a) Developing and preparing prospective information and subsequently providing assurance on this information.

(b) Performing a valuation that forms part of the subject matter information of an assurance engagement.

## SECTION 990

# REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

### Introduction

- 990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an ["eligible assurance engagement."](#)

### Requirements and Application Material

#### General

- R990.3** When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:
- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
  - (b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.
- 990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.
- R990.4** Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.
- 990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

**R990.5** When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

**R990.6** If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

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

**R990.7** When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

**R990.8** When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; bold font is used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

**Acceptable level** A level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

**Advertising** The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.

**Appropriate reviewer** **An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant.**  
**This term is described in [paragraph 300.8 A4](#).**

**Assurance client** The responsible party that is the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the subject matter; or
- (b) In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.

**Assurance engagement** An engagement in which a professional accountant in public practice 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 the *International Framework for Assurance Engagements* issued by the International Auditing and Assurance Standards Board. The *International Framework for Assurance Engagements* describes the elements and objectives of an assurance engagement and identifies engagements to which *International Standards on Auditing* (ISAs), *International Standards on Review Engagements* (ISREs) and *International Standards on Assurance Engagements* (ISAEs) apply.)

Assurance team	<ul style="list-style-type: none"> <li>(a) All members of the engagement team for the assurance engagement;</li> <li>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including: <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;</li> <li>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</li> <li>(iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</li> </ul> </li> </ul>
Audit	<b>In Part 4A, the term "audit" applies equally to "review."</b>
Audit client	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. <b>(See also <i>paragraph R400.20.</i>)</b></p> <p><b>In Part 4A, the term "audit client" applies equally to "review client."</b></p>
Audit engagement	<p>A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with <i>International Standards on Auditing</i>. This includes a Statutory Audit, which is an audit required by legislation or other regulation.</p> <p><b>In Part 4A, the term "audit engagement" applies equally to "review engagement."</b></p>
Audit report	<b>In Part 4A, the term "audit report" applies equally to "review report."</b>
Audit team	<ul style="list-style-type: none"> <li>(a) All members of the engagement team for the audit engagement;</li> <li>(b) All others within a firm who can directly influence the outcome of the audit engagement, including: <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</li> </ul> </li> </ul>

- (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.

**In Part 4A, the term “audit team” applies equally to “review team.”**

Close family                      A parent, child or sibling who is not an immediate family member.

Conceptual framework        **This term is described in [Section 120](#).**

Contingent fee                 A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

Cooling-off period             **This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.**

Direct financial interest       A financial interest:

- (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

Director or officer             Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.

Eligible assurance engagement    **This term is described in paragraph 990.2 for the purposes of Section 990.**

Eligible audit engagement       **This term is described in paragraph 800.2 for the purposes of Section 800.**

Engagement partner           The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement period  
(Assurance Engagements Other than Audit and Review Engagements)       The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.



Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant 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 of professional accountants;  
(b) An entity that controls such parties, through ownership, management or other means; and  
(c) An entity controlled by such parties, through ownership, management or other means.

***Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.***

Fundamental principles      **This term is described in [paragraph 110.1 A1](#). Each of the fundamental principles is, in turn, described in the following paragraphs:**

<b>Integrity</b>	<b><a href="#">R111.1</a></b>
<b>Objectivity</b>	<b><a href="#">R112.1</a></b>
<b>Professional competence and due care</b>	<b><a href="#">R113.1</a></b>
<b>Confidentiality</b>	<b><a href="#">R114.1</a></b>
<b>Professional behavior</b>	<b><a href="#">R115.1</a></b>

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

**As set out in [paragraphs 400.5 and 900.4](#), references to an individual or firm being “independent” mean that the individual or firm has complied with Parts 4A and 4B, as applicable.**

Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
Inducement	<p>An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.</p> <p><b>Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), or between professional accountants and existing or prospective clients (for professional accountants in public practice), to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</b></p> <ul style="list-style-type: none"> <li>• <b>Gifts.</b></li> <li>• <b>Hospitality.</b></li> <li>• <b>Entertainment.</b></li> <li>• <b>Political or charitable donations.</b></li> <li>• <b>Appeals to friendship and loyalty.</b></li> <li>• <b>Employment or other commercial opportunities.</b></li> <li>• <b>Preferential treatment, rights or privileges.</b></li> </ul>
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
May	<b>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</b>
Might	<b>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</b>

Network	<p>A larger structure:</p> <ul style="list-style-type: none"><li>(a) That is aimed at co-operation; and</li><li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li></ul>
Network firm	<p>A firm or entity that belongs to a network.</p> <p><b>For further information, see <a href="#">paragraphs 400.50 A1</a> to <a href="#">400.54 A1</a>.</b></p>
Non-compliance with laws and regulations ( <b>Professional Accountants in Business</b> )	<p><b>Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</b></p> <ul style="list-style-type: none"><li>(a) <b>The professional accountant's employing organization;</b></li><li>(b) <b>Those charged with governance of the employing organization;</b></li><li>(c) <b>Management of the employing organization; or</b></li><li>(d) <b>Other individuals working for or under the direction of the employing organization.</b></li></ul> <p><b>This term is described in <a href="#">paragraph 260.5 A1</a>.</b></p>
Non-compliance with laws and regulations ( <b>Professional Accountants in Public Practice</b> )	<p><b>Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</b></p> <ul style="list-style-type: none"><li>(a) <b>A client;</b></li><li>(b) <b>Those charged with governance of a client;</b></li><li>(c) <b>Management of a client; or</b></li><li>(d) <b>Other individuals working for or under the direction of a client.</b></li></ul> <p><b>This term is described in <a href="#">paragraph 360.5 A1</a>.</b></p>
Office	<p>A distinct sub-group, whether organized on geographical or practice lines.</p>
Predecessor accountant	<p>A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.</p>
Professional accountant	<p>An individual who is a member of ACCA.<sup>1</sup></p>

<sup>1</sup>In the context of the ACCA Code of Ethics and Conduct, a professional accountant is to be interpreted as a member or, where appropriate, student, affiliate or member firm of ACCA.

**In Part 1, the term “professional accountant” refers to individual professional accountants in business and to professional accountants in public practice and their firms.**

**In Part 2, the term “professional accountant” refers to professional accountants in business.**

**In Parts 3, 4A and 4B, the term “professional accountant” refers to professional accountants in public practice and their firms.**

Professional accountant in business	A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.
Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p><b>The term “professional accountant in public practice” is also used to refer to a firm of professional accountants in public practice.</b></p>
Professional activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.
Professional services	Professional activities performed for clients.
Proposed accountant	A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).
Public interest entity	<p>(a) A listed entity; or</p> <p>(b) An entity:</p> <ul style="list-style-type: none"> <li>(i) Defined by regulation or legislation as a public interest entity; or</li> <li>(ii) 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. Such regulation might be promulgated by any relevant regulator, including an audit regulator.</li> </ul> <p><b>Other entities might also be considered to be public interest entities, as set out in <a href="#">paragraph 400.8</a>.</b></p>

Reasonable and informed third party  
Reasonable and informed third party test

**The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.**

**These terms are described in [paragraph 120.5 A4](#).**

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 *International Standards on Review Engagements* or equivalent, in which a professional accountant in public practice 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 accountant's attention that causes the accountant 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.

## Safeguards

**Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.**

**This term is described in [paragraph 120.10 A2](#).**

## Senior professional accountant in business

**Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.**

**This term is described in [paragraph 260.11 A1](#).**

## Special purpose financial statements

Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

## Substantial harm

**This term is described in [paragraphs 260.5 A3](#) and [360.5 A3](#).**

## Those charged with governance

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

## Threats

**This term is described in [paragraph 120.6 A3](#) and includes the following categories:**

<b>Self-interest</b>	<b>120.6 A3(a)</b>
<b>Self-review</b>	<b>120.6 A3(b)</b>
<b>Advocacy</b>	<b>120.6 A3(c)</b>
<b>Familiarity</b>	<b>120.6 A3(d)</b>
<b>Intimidation</b>	<b>120.6 A3(e)</b>

## Time-on period

**This term is described in [paragraph R540.5](#).**

**LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE**

**LIST OF ABBREVIATIONS**

<b>Abbreviation</b>	<b>Explanation</b>
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQCs	International Standards on Quality Control
ISREs	International Standards on Review Engagements

**LIST OF STANDARDS REFERRED TO IN THE CODE**

<b>Standard</b>	<b>Full Title</b>
ISA 320	Materiality In Planning and Performing an Audit
ISA 610 (Revised 2013)	Using the Work of Internal Auditors
ISAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
ISQC 1	Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
ISRE 2400 (Revised)	Engagements to Review Historical Financial Statements



## EFFECTIVE DATE

### Restructured Code

- (a) Parts 1, 2 and 3 of the restructured Code will be effective as of June 15, 2019.
- (b) Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after June 15, 2019.
- (c) Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after June 15, 2019; otherwise, it will be effective as of June 15, 2019.

Early adoption is permitted.

### Long Association Provisions

- (a) Subject to the transitional provision in (c) below, paragraphs 290.148 to 290.168 are effective for audits of financial statements for periods beginning on or after December 15, 2018.
- (b) For assurance engagements covering periods, paragraphs 291.137 to 291.141 will be effective for periods beginning on or after December 15, 2018; otherwise, they will be effective as of December 15, 2018.
- (c) Paragraph 290.163 shall have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

The effective date of the restructured Code does not override the effective date of the revised Long Association provisions in extant Sections 290 and 291.

***Supplementary requirements and guidance***

**SECTION B**

**PROFESSIONAL ACCOUNTANTS  
IN PUBLIC PRACTICE**

## **SECTION B1**

# **Professional duty of confidence in relation to defaults and unlawful acts of clients and others**

## **Introduction**

1. A professional accountant acquiring information in the course of professional work shall not disclose any such information to third parties without first obtaining permission from the client. Likewise, students and affiliates shall treat any information given by a professional accountant in the strictest confidence. To a professional accountant in business, the "client" for the purpose of this section is their employer. Professional accountants' attention is drawn to the discussion of the fundamental principles in [Section 110](#) of this Code, and the conceptual framework in [Section 120](#).
2. There are, however, circumstances where a professional accountant may disclose information to a third party without first obtaining permission. This would be where, for example, there is a statutory right or duty to disclose, or where a professional accountant is served with a court order or some other form of witness summons, under which the professional accountant is obliged to disclose information.
3. This section looks at situations where a professional accountant may be required to disclose information about their clients without first obtaining permission to do so.
4. A professional accountant may suspect or encounter a number of criminal offences during the course of the professional accountant's work. Most commonly occurring are:
  - (a) money laundering;
  - (b) drug trafficking or terrorism;
  - (c) theft, obtaining by deception, false accounting, and suppression of documents;
  - (d) fraud and forgery;
  - (e) offences under company law;
  - (f) perjury and offences under legislation for the prevention of corruption;
  - (g) bankruptcy or insolvency offences, frauds on creditors, false trade descriptions, and offences arising out of relations between employers and employees;
  - (h) conspiracy, soliciting or inciting to commit crime and attempting to commit crime;
  - (i) tax evasion;
  - (j) insider dealing.

*In some jurisdictions money laundering will be a crime not only in relation to serious offences but in relation to all offences.*

5. *A professional accountant who suspects or acquires knowledge indicating that a client (incorporated or un-incorporated) or an officer or employee of a client may have been guilty of some default or unlawful act shall normally notify the client's management as soon as practicable and at an appropriate level. In the case of unlawful acts that may amount to money laundering, a professional accountant may be required, depending on local legislation, to report the suspicion or knowledge internally or to the appropriate external authority (see [Section B2](#), Anti-money laundering, for further details). In such circumstances, a professional accountant shall avoid doing anything that might tip off the client that a report has been made.*
6. *If a professional accountant's concerns are not satisfactorily resolved, they shall consider reporting the matter to non-executive directors or to the client's audit committee where these exist. Where this is not possible or fails to resolve the matter, the professional accountant shall consider making a report to a third party.*
7. *Guidance is provided below on reporting suspected defaults or unlawful acts to third parties.*
8. *References within this section to "client" include former clients.*
9. *A professional accountant acquiring information in the course of their professional work in respect of non-clients (for example, potential clients) shall not disclose any such information to a third party without first obtaining permission from the individual or entity concerned.*
10. *A professional accountant shall consider seeking legal advice before making any disclosure, particularly when contemplating disclosing information to a third party.*

## **Relationship between professional accountants and their clients**

11. *A professional accountant shall explain to clients that they may only act for those clients who agree to disclose in full all information relevant to an engagement.*
12. *A professional accountant shall not agree to act for clients who will not consent to make full disclosure of relevant information.*
13. *If, during the course of an engagement, a professional accountant is unable to obtain from the client the information that they consider necessary, the professional accountant has a duty to indicate this fact in any report that they may make. In the case of an audit report, an auditor may have a statutory obligation to do so (as an auditor in the United Kingdom does by virtue of section 498(3) of the Companies Act 2006). In either case, a professional accountant may consider that they can no longer act.*
14. *It is likely to be an offence (as it is in the United Kingdom under section 501(2) of the Companies Act 2006) for an officer of a company knowingly or recklessly to make misleading, false or deceptive statements to the company's auditor. This applies to all information, explanations and statements provided by the company's officers to the auditors whether in written or oral form.*
15. *In many jurisdictions (including the United Kingdom and the Republic of Ireland) an auditor is an officer of a company.*

## **Verification of information by reference to the records of a third party who is also a client**

16. *Sometimes in the course of their work a professional accountant may obtain information from a client (client A) bearing on information supplied to them by another client (client B). In such circumstances it would be a breach of confidence to reveal the information to the second client (client B) without the permission of the first client (client A). In all probability, any attempt to obtain that permission from client A would result in a breach of the duty of confidence owed to the second client (client B).*
17. *A professional accountant shall instead endeavour to substantiate the information with evidence obtained from the books and records of the second client (client B). If this proves impossible, the professional accountant shall seek the consent of the second client (client B) to obtain direct confirmation of the information concerned from the first client (client A).*
18. *If the second client (client B) refuses permission to contact the first client (client A), a professional accountant shall, where undertaking an audit assignment, consider qualifying the report and/or resigning. Where relevant, a professional accountant shall consider making an appropriate statement of any circumstances connected with the resignation which the professional accountant believes should be brought to the notice of the members or creditors of the company, without revealing the name of the first client (client A). In the United Kingdom, an auditor who resigns is required under section 519 of the Companies Act 2006 to either make such a statement or confirm that no such circumstances exist. In the case of non-audit engagements where consent is refused the professional accountant shall consider ceasing to act.*

## **Disclosure of defaults or unlawful acts**

19. *Confidentiality is an implied term of a professional accountant's contract with their client. For this reason a professional accountant shall not, as a general rule, disclose to other persons, against their client's wishes, information about a client's affairs acquired during and as a result of their professional relationship. The obligation of confidentiality continues even though a professional relationship has ended.*
20. *It is in the public interest that this confidential relationship is maintained. Without the benefit of confidentiality a client might be reluctant to seek advice from a professional accountant. Unintended defaults or unlawful acts may be averted as a result of the client acting on the professional accountant's advice, because the client is able to discuss their plans in confidence.*
21. *A professional accountant who becomes aware that a client has, or may have, committed a default or unlawful act is normally under no legal obligation to disclose what they know to any persons other than the directors of the client or some person having their authority. However, in certain circumstances, whilst there may be no obligation in law to make a disclosure, professional accountants may consider it to be in the "public interest" that a disclosure is made. A professional accountant who considers making a disclosure in the "public interest" is advised to seek legal advice before making such a disclosure.*

## **Obligatory disclosure**

22. *A professional accountant based in the United Kingdom who believes that a client has committed terrorist offences, or has reasonable cause to believe that a client has committed treason, is bound to disclose that knowledge to the proper authorities immediately. A professional accountant in another jurisdiction shall also take appropriate steps to report such offences to an appropriate authority whilst having regard to the requirements of local laws and regulations.*
23. *A professional accountant is likely to commit an offence if the professional accountant assists anyone whom they know or suspect to be laundering money generated by a crime. This is certainly the case in the United Kingdom. If a professional accountant forms a suspicion of money laundering in the course of their professional activities, they shall report it to a proper authority. A professional accountant is likely to commit an offence if they fail to make a report. This is the case in the United Kingdom, where the Proceeds of Crime Act 2002 provides a specific exemption from all confidentiality requirements (including those imposed by ACCA's Code of Ethics and Conduct) when reporting knowledge or suspicions relating to funds derived from criminal conduct; the report must be made in good faith. Professional accountants are referred to [Section B2](#), Anti-money laundering, for further guidance.*
24. *A professional accountant shall disclose information if compelled by the process of law, for example under a court order.*
25. *A professional accountant, in certain circumstances, may be obliged to disclose certain information to the liquidator, administrative receiver or administrator of a client (e.g. section 235 of the Insolvency Act 1986 of the United Kingdom – corporate or section 366 of the Insolvency Act 1986 of the United Kingdom – bankruptcy).*
26. *In most circumstances, lawyers and their intermediate agents are not required to disclose oral or documentary communication passing between them and their clients in professional confidence without the express consent of the client. However, this legal privilege does not extend to the relationship between accountants and their clients.*
27. *A firm that carries on financial services work, such as investment business, and acts in connection with a take-over, merger or acquisition, shall co-operate with the relevant regulator for such take-overs and mergers. For example, auditors of clients within the financial services sector in the United Kingdom are advised to refer to the Financial Reporting Council International Standard on Auditing (UK and Ireland) 250 Section B: The auditor's right and duty to report to regulators in the financial sector.*
28. *For auditors, the whistleblowing requirements of auditing standards mean that there is the potential to fall foul of regulations, for example, for auditors of entities registered in the United Kingdom and the Republic of Ireland, International Standard on Auditing (UK and Ireland) 250 Section A: Consideration of law and regulations in an audit of financial statements, and International Standard on Auditing (UK and Ireland) 250 Section B: The auditor's right and duty to report to regulators in the financial sector. Failure to report is likely to be an offence, as it is in the United Kingdom and the Republic of Ireland, and may, in certain specified circumstances, leave a professional accountant facing fines or even imprisonment. Professional accountants are referred to [Section B3](#), Whistleblowing responsibilities placed on auditors, for further guidance.*

29. *Professional accountants may be entitled, as they are in the United Kingdom and the Republic of Ireland, to the benefit of the ordinary privilege that they need not disclose any information which would incriminate them.*

## **Voluntary disclosure**

30. *In certain cases a professional accountant is free to disclose information, whatever its nature. These circumstances fall into four categories of disclosure:*
- (a) in the public interest;*
  - (b) to protect a professional accountant's interests;*
  - (c) authorised by statute;*
  - (d) to non-governmental bodies.*

## **Disclosure in the public interest**

31. *A professional accountant may disclose information which would otherwise be confidential if disclosure can be justified in the "public interest". Whilst it is a concept recognised by the courts, there is no definition of "public interest" which places professional accountants in a difficult position as to whether or not disclosure is justified. However, it is likely that these exceptions to the duty of confidentiality are permitted only where the disclosure is made to "one who has a proper interest to receive that information" (as set out in the United Kingdom case of **Initial Services v Putteril (1967) All ER145**). The proper authorities may, for example, be the police, the government department responsible for trade and industry, or a recognised stock exchange, and will depend upon the particular circumstances. Professional accountants are referred to [Section B3](#), Whistleblowing responsibilities placed on auditors, for further guidance.*
32. *When considering whether or not disclosure is justified, a professional accountant shall take the following into account:*
- (a) the relative size of the amounts involved and the extent of the likely financial damage;*
  - (b) whether members of the public are likely to be affected;*
  - (c) the possibility or likelihood of repetition;*
  - (d) the reasons for the client's unwillingness to disclose the matters to the proper authority;*
  - (e) the gravity of the matter;*
  - (f) relevant legislation, accounting standards and auditing standards, etc.;*
  - (g) any legal advice obtained.*
33. *Determination of where the balance of public interest lies will require very careful consideration and it will often be appropriate to take legal advice before making a decision. The reasons underlying any decision whether or not to disclose shall be fully documented.*

## **Disclosure to protect a professional accountant's interests**

34. *A professional accountant may disclose to the proper authorities information concerning their clients where their own interests require disclosure of that information to:*
- (a) *enable the professional accountant to defend himself/herself against a criminal charge or to clear himself/herself of suspicion;*
  - (b) *resist proceedings for a penalty in respect of a taxation offence, for example, in a case where it is suggested that the professional accountant assisted or induced their client to make or deliver incorrect returns or accounts;*
  - (c) *resist a legal action brought against them by a client or some third person;*
  - (d) *enable the professional accountant to defend himself/herself against disciplinary proceedings or criticism which is the subject of enquiry by ACCA, or another regulatory body;*
  - (e) *enable the professional accountant to sue for their fees.*

## **Disclosure authorised by statute**

35. *There are cases of express statutory provision where disclosure of information to a proper authority overrides the duty of confidentiality. Professional accountants are advised to refer to the legislation relevant to the economic sector in which their client operates. Professional accountants are advised to consider each statute carefully to determine the protection offered to the person making a disclosure since this varies from statute to statute. Professional accountants are referred to [Section B3](#), Whistleblowing responsibilities placed on auditors, and [Section B2](#), Anti-money laundering, for further guidance.*

## **Disclosure to non-governmental bodies**

36. *A professional accountant may be approached by a recognised but non-governmental body seeking information concerning suspected acts of misconduct not amounting to a crime or civil wrong. Some of these bodies have statutory powers to require persons to supply information, in which case the professional accountant shall comply. Where there is no such statutory power, the professional accountant shall not supply information without consent from the relevant client.*

## **Prosecution of a client or former client**

37. *Where a professional accountant is approached by the police, the tax authorities or other public authority making enquiries which may lead to the prosecution of a client or former client for an offence (other than treason, certain terrorist offences or money laundering), the professional accountant shall act with caution.*



38. *The professional accountant shall ascertain whether or not the person requesting information has a statutory right to demand it and seek legal advice before giving any information. A professional accountant shall consider the nature of the alleged offence and whether if they were to give the information they would be justified because of an overriding public interest in disclosure or would be acting contrary to professional ethics.*
39. *Unless ordered by the court or acting under a statutory authority a professional accountant shall refuse to give the information until they have obtained their client's authority, or received independent legal or other professional advice, that they must or may give the information whether or not they have obtained their client's consent. The professional accountant shall state that in the meantime they are not in a position to discuss their client's affairs. The professional accountant shall, however, keep in close touch with their legal or other professional adviser(s) on the legal aspects of their position.*

## **Appearance as a witness**

40. *A professional accountant invited to appear in court as a witness against a client or former client, whether in civil or criminal proceedings, shall normally refuse until served with a subpoena or other form of witness summons. However, where criminal proceedings are concerned, the professional accountant shall carefully consider agreeing to appear as a witness and shall seek legal advice before making a decision.*
41. *A professional accountant shall answer any questions that are put to them, even though they may thus disclose information obtained in a confidential capacity. A professional accountant may ask the court for confirmation that they are obliged to answer particular questions.*
42. *A professional accountant shall produce any documents in their ownership or possession if directed to do so by the courts. Advance warning will normally be given of the intention to call for such documents.*

## **Professional accountants' relations with the authorities on clients' behalf**

43. *A professional accountant in public practice, acting in any professional capacity, has access to much information of a confidential nature. It is essential that they shall normally treat such information as available to them for the purpose only of carrying out the professional duties for which they have been engaged. To divulge information about a client's affairs would normally be a breach of professional confidence, which might have the most serious legal and professional consequences.*

## **Professional accountants' own relations with authorities**

44. *A professional accountant commits a criminal offence if he/she:*
- (a) *incites a client to commit a criminal offence, whether or not the client accepts their advice; or*
  - (b) *helps or encourages a client in the planning or execution of a criminal offence which is committed; or*
  - (c) *agrees with a client or anyone else to pervert or obstruct the course of justice by concealing, destroying or fabricating evidence or by misleading the police by statements which they know to be untrue.*
45. *A professional accountant who knows that a client has committed money laundering, treason or certain terrorist offences, but who fails to disclose what they know to the proper authorities, is likely to commit a criminal offence by failing to do so, as is the case in the United Kingdom.*
46. *A professional accountant who knows or believes that a client has committed an arrestable offence would commit a criminal offence if the professional accountant were to act with the intention of impeding the arrest or prosecution of the client. (Under the law of the United Kingdom, an arrestable offence is one "for which the sentence is fixed by the law or for which a person not previously convicted may under or by virtue of any enactment be sentenced to imprisonment for a term of five years" – section 2(1) Criminal Law Act 1967.)*
47. *To be convicted of the offence of impeding the arrest or prosecution of a client a professional accountant would have to do some positive act to assist a client to escape arrest or prosecution for an arrestable offence. A professional accountant's refusal to answer questions by the police about a client's affairs or to produce documents relating to a client's affairs without that client's consent, would not constitute an act to impede the arrest or prosecution of a client.*
48. *Where a professional accountant knows or believes that a client has committed an arrestable offence, and the professional accountant has information which may be of material assistance in the prosecution of the client for the offence, they would be committing a criminal offence if they were to accept, or agree to accept, any consideration in return for not disclosing that information. In these circumstances, the acceptance of a reasonable fee for professional services rendered would not be an offence.*

## **Company investigation**

49. *When a professional accountant acts as auditor of a limited company it is the company which is the client, not the directors.*
50. *If it is necessary for an auditor to qualify an audit report, the qualifications shall indicate clearly the offences that have been committed and have given rise to the qualification. Professional accountants are referred to [Section B3](#), Whistleblowing responsibilities placed on auditors, for further guidance.*

51. *An auditor cannot avoid bringing to the attention of shareholders circumstances which may indicate that offences have been committed by resigning from office without making a report. On resignation, an auditor shall include in the notice of resignation either a statement of any circumstances connected with the resignation which the out-going auditor believes should be brought to the notice of the members or creditors of the company or a statement to the effect that there are no such circumstances to be brought to the attention of the members and creditors. Such statements are mandatory for auditors of entities registered in the United Kingdom (section 519 of the Companies Act 2006), where an auditor's resignation will be treated as ineffective unless a statement has been made.*
52. *In many cases, the interests of the members and creditors will best be served if the auditor completes the audit and reports to shareholders on the accounts (for example, in accordance with section 495 of the Companies Act 2006 of the United Kingdom). The auditors may then indicate that they do not wish to be considered for re-appointment at the next annual general meeting of the company.*
53. *Where the auditors believe that they may need to refer to the commission of offences, either in the audit report or in the notice of resignation, they should be aware of the danger of an action for defamation. The auditors shall therefore seek legal advice as to the terms in which they should either report or make a statement in their notice of resignation.*

## **Transmission of report to shareholders**

54. *In normal circumstances an auditor's duty is fulfilled when the audit report is sent to the secretary or directors of the company for onward transmission to the company's shareholders. However, if the auditor knows, or has good reason to believe that, for example, the audit report:*
- (a) has not been sent to shareholders; or*
  - (b) has been sent to shareholders in an altered form; or*
  - (c) has been sent to shareholders unaltered, but in a misleading context;*
- it will be necessary for the auditor to consider what steps must be taken to rectify the situation.*
55. *The steps available to the auditor in these circumstances may include communicating directly with the shareholders. Often the mere threat of direct communication with the shareholders will result in the desired action.*
56. *If it is decided that direct communication with the shareholders should take place, the auditor should be aware of the danger of an action for defamation being brought against the auditor. Special care is required in the event of those exceptional cases where the difficulty of communication or the urgency of the situation necessitates a public announcement being made. Where this need arises, the auditor should take special care to guard against the possibility of defamation.*
57. *As soon as the possibility of making a communication to shareholders arises, the auditor shall seek legal advice on an auditor's duty to the shareholders in the particular circumstances of the case. Additionally, the auditor shall seek legal advice as to the method of any communication the auditor is required to make and the terms in which the communication should be made.*

58. *If the auditor is aware of third parties who may be affected by the situation the auditor shall also consider taking the steps outlined in paragraphs 63 to 67 or paragraphs 68 to 70 below, as appropriate.*

## **Urgent cases**

59. *An auditor may sometimes become aware of information which suggests that offences or other unlawful acts or defaults have been committed by a director(s) or an employee(s) of the company. The facts may be of such a nature that, even though they may ultimately give rise to a qualification of the auditor's report, it would be contrary to the interests of the company for their disclosure to await the transmission of the audit report.*
60. *On the occasions when this arises, it is likely to be because the conduct is both serious and liable to be repeated. In such a case it will be necessary for an auditor to report at once to the directors.*
61. *There may also be cases in which the involvement of the directors themselves will make it necessary for the auditor to consider taking further steps to ensure that the matter is brought promptly to the attention of shareholders. These steps may include resignation by a notice stating the circumstances or even direct communication with shareholders.*
62. *Occasions which call for such steps will be rare, and an auditor who is considering taking them shall seek legal advice.*

## **Past accounts and reports**

63. *Where an auditor discovers that past accounts on which they reported are defective, the auditor shall consider the position in relation to the shareholders, regulatory bodies, the tax authorities and third parties.*

## **Shareholders**

64. *Reference shall be made to the relevant auditing standards applicable in the jurisdiction under which the professional accountant has carried out the audit, for example International Standards on Auditing 560 – Subsequent Events.*

## **Tax authorities**

65. *The auditor shall follow the same procedure as in the case of an individual client.*

## **Other third parties**

66. *An auditor may be liable if having prepared a report which the auditor later discovers to be false in some material respect, he/she subsequently fails to take appropriate action to correct that report. In such circumstances the auditor shall ordinarily take legal advice as to the steps which are appropriate. These might include the following:*
- (a) *Where the report was prepared for the company alone or for statutory purposes, the auditor's appropriate course will generally be to disclose the relevant facts to the directors and ascertain what steps they intend to take to bring it to the attention of third parties who are affected.*

- (b) *If the directors fail to take such steps, the proper course for the auditor to adopt will depend on the gravity of the error and the nature of the reliance which has been or is likely to be placed upon it by the third party.*
- (c) *The courses open to the auditors include resignation by a notice which contains a statement of the relevant facts and of the directors' failure to bring those facts to the attention of those affected. In the United Kingdom, if a notice containing such a statement is deposited at the company's registered office, the company is required by section 519 of the Companies Act 2006 to send a copy within 14 days to the Registrar of Companies and to every person having a statutory right to receive the accounts. The auditor may also require the directors of the company to convene (at the company's expense) an extraordinary general meeting of the company to receive, and consider such explanation of the circumstances connected with the auditor's resignation as the auditor may wish to place before the meeting. Where the auditor has resigned and deposited a statement of the relevant facts, it will often be unnecessary to take any further steps to bring the facts to the attention of the third parties.*
- (d) *There may, however, be cases in which reliance has been placed or may be placed upon the auditor's report by a third party who is not likely to receive a copy of the auditor's notice of resignation and statement of reasons, either because the third party is not one of those entitled to receive copies of the accounts or because the company does not propose to send the notice and statement to such persons or does not intend to do so sufficiently quickly. In these cases it may be appropriate for the auditor to communicate directly with those third parties known to be affected, stating that they have resigned as auditor, that a statement of reasons for the auditor's resignation has been deposited with the company to be forwarded to, inter alia, the regulator responsible for company registration, and that those reasons may affect the interests of persons who have read the company's accounts and the auditor's report upon those accounts.*
- (e) *An auditor who believes that a company may fail to forward a copy of the notice of resignation and statement of reasons to the regulator responsible for company registration may, and in some cases must, notify the regulator that they have deposited such a notice and statement with the company and enquire whether it has been received. The auditor shall also inform the company that they have notified the regulator of the resignation.*

*Save in exceptionally urgent cases it will usually be appropriate to notify the company in advance of what the auditor intends to do, so that the company may have an opportunity itself to bring the relevant facts to the attention of those affected.*

67. *An auditor may sometimes be instructed to prepare a report (other than a statutory report) for the purpose of being submitted to a third party. Such a report will usually amount in law to a representation made by the auditor to that third party. Where this is the case and the auditor subsequently discovers that it is false in a material respect, the auditor is entitled to communicate a correction directly to the third party, and shall normally do so.*

## Removal of the auditor

68. *The distinction between the directors and the shareholders will sometimes have little or no relevance, either because the directors hold a controlling interest or because all the shareholders are directors. When in these circumstances the directors fail to comply with the auditor's advice they may wish to prevent the auditor from completing the audit and making a report containing qualifications. They could achieve this by calling a general meeting at which the sole business would be the removal of the auditor (for example, in the United Kingdom under section 510 of the Companies Act 2006).*
69. *If this procedure is followed the auditor may wish to take one of three courses:*
- (a) make written representation to the company (which, for example, an auditor is authorised to make under section 513 of the Companies Act 2006 of the United Kingdom), or*
  - (b) attend the general meeting and be heard (which, for example, an auditor has a right to do under section 510 of the Companies Act 2006 of the United Kingdom), or*
  - (c) resign before the general meeting, and include a statement of circumstance in the notice of resignation (which, for example, is required by section 519 of the Companies Act 2006 of the United Kingdom).*
70. *Where there are persons who would be affected by a qualification to the report and who would not be entitled to receive representations (for example, under section 513 of the Companies Act 2006 of the United Kingdom) or to attend the meeting, resignation with a statement of the circumstances will often be the more appropriate course.*

## Disclosure of information to office holders under insolvency legislation

71. *Liquidators, administrators and administrative receivers may have a statutory right to call for "such information concerning the company and its promotion, formation, business, dealings, affairs or property as the (liquidator, administrator or administrative receiver) may ... reasonably require", from any person who is or was at any time an officer of the company. In the United Kingdom, such statutory right exists under sections 235 and 236 of the Insolvency Act 1986 and the courts have held that an auditor is an "officer" of a company.*
72. *A professional accountant who is required by a liquidator, administrative receiver or administrator to supply information in these cases shall normally do so unless the liquidator, administrator or administrative receiver is acting beyond their respective powers, or for a purpose unrelated to their official functions or in breach of their duties. A professional accountant dealing with a liquidator, administrative receiver or administrator in good faith is entitled to assume that they are acting within their powers. In this respect, professional accountants in the United Kingdom shall bear in mind that the courts have held that the Official Receiver, whether acting as a liquidator or not, has the right to invoke sections 235 and 236 of the Insolvency Act 1986 to require a former auditor to provide information solely in connection with his/her preparation of a case against an individual director under the Company Directors Disqualification Act 1986 (**Re Pantmaenog Timber Co Ltd, [2003] UKHL 49**).*

73. *Receivers, as opposed to administrative receivers or administrators, are unlikely to have a general statutory power to obtain information. They do not have such power in the United Kingdom. Moreover, although the extent of their powers will depend on the terms of the deed or court order pursuant to which they were appointed, it is unlikely that their powers will extend to requiring information from a professional accountant without the specific consent of the company or an order of the court.*
74. *In the case of a client's bankruptcy, there is unlikely to be an express obligation for a professional accountant to co-operate with, or pass information to, the trustee. However, a bankrupt may be obliged to deliver to the trustee all property, books, papers or other records that relate to the bankrupt's estate or affairs and of which the bankrupt has possession or control (for example, under section 312 of the Insolvency Act 1986 of the United Kingdom). A professional accountant with a client subject to a bankruptcy order can, therefore, expect the client to direct the professional accountant to transfer to the trustee such of the client's books, papers and records as are in the professional accountant's possession. A professional accountant should also be aware that he/she may be liable to be summoned to produce to the court any documents in the professional accountant's possession or control relating to the bankrupt or the bankrupt's dealings, affairs or property or to answer questions or provide information relating to such matters (for example, under section 366 of the Insolvency Act 1986 of the United Kingdom).*
75. *In the case of an individual's voluntary arrangement with creditors (known in the United Kingdom as an Individual Voluntary Arrangement (IVA)), a nominee, in preparing the report for the court on the debtor's proposal, will wish to have access to the debtor's accounts and records. In view of the nature of the voluntary arrangement, it is possible that the debtor will choose to authorise additional co-operation during the course of the arrangement. Accordingly, professional accountants can expect clients to authorise them to disclose this information to the nominee. In the United Kingdom, there is no general provision in the Insolvency Act or Rules for an accountant to pass information to a nominee or supervisor.*
76. *Similar rules to those set out in paragraph 75 above will apply in a company voluntary arrangement with creditors (known in the United Kingdom as a Company Voluntary Arrangement (CVA)). In the case of such an arrangement, it is the directors who will wish to allow access by the nominee to their company's accounts and records.*

## **Auditors of companies in liquidation**

77. *Although the appointment of an auditor of a company is made by the shareholders in general meeting (or in the case of a newly formed company by the directors) the auditor's appointment is by the company as a legal entity and the auditor's duty of confidence is to the company as distinct from the individual shareholders.*
78. *If the company goes into liquidation the company's rights remain vested in the company as an entity and it is therefore still the company to which the auditor has a duty of confidence. The liquidator will, however, normally be the proper agent of the company for the purpose of enforcing any rights which the company could have enforced, including the company's right to permit its auditors to provide information to others. Moreover, a liquidator may be able to exercise a statutory power to call for information, such as that conferred by section 235 of the Insolvency Act 1986 of the United Kingdom, referred to at paragraph 71 above.*

79. *The auditor of a company which is in liquidation may be approached by the police for assistance in enquiries which may lead to a director or other individual being prosecuted. The auditor is under no legal obligation to give to the police any information obtained in the course of the professional relationship with the client. In normal circumstances, the auditor shall not assist the police by the disclosure of information, etc. unless the liquidator has given permission for this action (the liquidator being the person who could exercise the right of the company to release the auditor from the duty of confidence). If the liquidator does not give permission to the auditor, unless there are considerations of public interest (as noted in [paragraphs 31](#) to 33 of this section), the auditor shall explain to the police that the information is confidential and may not be disclosed without permission.*

## **Defamation**

80. *If an auditor forms the view that unlawful acts or defaults have occurred and communicates the relevant facts to persons who have a legitimate interest in receiving them, the auditor may enjoy qualified privilege from liability for defamation, as is the case in the United Kingdom. Unless malice is proved against the auditor, that privilege will amount to complete defence, even if the facts should prove to be wrong. This statement gives only general guidance on the circumstances in which an auditor may have a duty to communicate such facts; each case must be considered in the light of its own particular circumstances. An auditor who is in any doubt as to the available options shall take legal advice about the auditor's rights and duties in such situations.*
81. *In particular, an auditor who is contemplating making a public announcement or communicating directly with shareholders shall bear in mind that such an announcement, even if justified by the particular circumstances of the case, may cause serious damage to the company or to individuals, and such a step shall not normally be taken without taking legal advice.*

## **Professional accountants' working papers**

82. *In most, but not all, circumstances, a professional accountant's working papers are the professional accountant's own property and any request for their production shall normally be refused. All documents relating to a client are confidential. They shall not be disclosed to third parties unless:*
- (i) the client agrees to the disclosure before it is made; or*
  - (ii) disclosure is authorised by statute or court order; or*
  - (iii) disclosure is otherwise in accordance with this Code of Ethics and Conduct of ACCA.*

*A professional accountant is advised to refer to [Section B5](#), Legal ownership of, and rights of access to, books, files, working papers and other documents, in order to determine whether the papers in question are the property of the professional accountant or the client.*

83. *However, if a tax authority requests the production of the working papers relating to a particular client whose affairs are under investigation, the professional accountant shall bear in mind that he/she has a duty to act in the best possible interests of his/her client.*



84. *The professional accountant shall check the powers under which the request for the production of records and information is made. If persons requesting the records and information are utilising statutory powers available to them which compel the production of records and information then the professional accountant shall comply. In other cases, where mandatory powers are not being utilised, the professional accountant shall consider the circumstances on a case by case basis.*
85. *If a professional accountant is of the opinion that his/her client would best be served by producing the documents then, provided that the client does not object, the professional accountant may deliver the required items and information. In some instances schedules, notes, etc., may well be helpful in supporting a professional accountant's reports and contentions. Correspondence and notes of interviews with clients and/or professional accountants' legal advisers will frequently be of an extremely confidential nature and shall only be produced in exceptional circumstances – and even then only with the client's authority. In all such cases a professional accountant shall consider obtaining legal advice and, where appropriate, recommend the client to obtain their own legal advice.*
86. *The decision whether or not to produce working papers is entirely one for the professional accountant, even if the client concerned has no objection to the disclosure of information contained therein.*

## **Taxation offences and the proceeds of crime**

87. *Of the wrongful acts of clients discovered by professional accountants, taxation offences of various kinds are likely to be amongst the more frequent. Tax legislation prescribes a number of offences for which monetary penalties are recoverable. The recovery of penalties against taxpayers does not rule out the possibility of criminal proceedings against them.*
88. *Any act or omission directed to or resulting in the evasion or attempted evasion of tax may be the subject of criminal charges under both tax law and anti-money laundering legislation. Tax evasion may relate to direct tax such as income tax or corporation tax, or indirect tax such as a tax on goods and services (VAT in the United Kingdom). The proceeds of such offences, like any other crime, will be subject to the anti-money laundering legislation. Professional accountants who suspect or are aware of tax evasion activities by a client may themselves commit an offence if they do not report their suspicions to the appropriate anti-money laundering authority (in addition to any notification to the tax authorities). Professional accountants are advised to refer to [Section B2](#), Anti-money laundering, for further guidance.*
89. *When a professional accountant finds that a client has misinformed or misled them as to their affairs in order to obtain a tax advantage, the professional accountant shall consider carefully not only the client's position but also their own position vis-à-vis the tax authorities. A professional accountant shall, in particular, consider the matters set out in paragraphs 90 to 105 below.*

## **Past accounts**

90. *A professional accountant may discover that accounts already prepared and/or reported on by him/her and/or computations and returns based thereon are no longer accurate. If these have already been submitted to the tax authorities, the professional accountant cannot allow the tax authorities to continue to rely on them. The professional accountant shall advise the client to make full disclosure, or to authorise the professional accountant to do so, without delay.*
91. *A professional accountant shall dissociate himself/herself from any returns or accounts that may be affected by a client's concealment. If the client refuses to make or authorise disclosure, the professional accountant shall inform the client that they can no longer act for them. The professional accountant shall also inform the client that it will be necessary to inform the tax authorities in the terms set out in paragraph 92 below.*
92. *In these circumstances, a professional accountant shall inform the tax authorities that, since the documents concerned were submitted, they have become aware of information which has led them to conclude that they would no longer be prepared to report on the documents in the same terms as previously and that they have ceased to act for the client. In so informing the tax authorities, a professional accountant is under no duty to indicate in what way the accounts are defective and shall not normally do so unless the client has consented to such disclosure.*

## **Current accounts**

93. *Where the information obtained affects accounts or statements that the professional accountant is currently preparing or auditing, the professional accountant is in a position to deal with the matter himself/herself. If the client fails to provide such information as the professional accountant may require, or objects to the manner in which the professional accountant considers that the accounts should be presented, it is the professional accountant's professional duty to qualify his/her reports on the accounts in such a way that the respects in which they are defective are made clear. The professional accountant shall also consider whether he/she ought to continue to act for that client.*

## **New clients**

94. *A professional accountant preparing or auditing accounts for a new client may become aware that accounts previously submitted to the tax authorities are defective. If so, the professional accountant shall advise the client to make full and prompt disclosure. A professional accountant has no responsibility for past accounts except in so far that errors in them affect the accuracy of accounts that the professional accountant is currently preparing or auditing. If the errors do have that effect, the professional accountant shall inform the client that an appropriate adjustment must be made in the current accounts. If the client is unwilling to agree to such adjustment, the professional accountant shall qualify their report on the accounts accordingly, and consider whether they should continue to act for that client.*

## **Private returns**

95. *Where a professional accountant has acted or is acting on personal tax matters and acquires information indicating that returns or accounts prepared and/or reported on by them and/or computations based thereon are no longer accurate, the professional accountant shall follow the procedure set out in paragraphs 90 to 92 above.*

## **Professional responsibility towards clients**

96. *Whatever line of conduct may be appropriate for a professional accountant to protect his/her own position, they are still under a professional duty to ensure, so far as they can, that the client understands the seriousness of offences against the tax authorities. The professional accountant shall also ensure that the client is aware of the probable consequences of a notification from the professional accountant to the tax authorities that the professional accountant is no longer acting for the client. In other words, the professional accountant shall always urge on their client the desirability of authorising the professional accountant to make full disclosure, subject to any legal advice obtained. Any accounts, returns, computations or reports submitted on behalf of a taxpayer are deemed to be submitted by them and/or with their consent unless they prove otherwise.*
97. *This emphasises the need for a professional accountant to obtain appropriate instructions from clients and to ensure that clients have signed or otherwise approved accounts. Where a professional accountant has not been instructed to deal with taxation work for a client, the professional accountant has no authority to deal with the tax authorities.*

## **Tax authority powers**

98. *A professional accountant shall ensure that he/she familiarises himself/herself with the statutory powers that the tax authorities have to compel disclosure in particular instances. In dealing with disclosures sought under such powers, a professional accountant shall ensure that the statutory power being invoked actually covers the information sought and, if in any doubt, shall take legal advice.*
99. *Tax authorities sometimes ask for information to be provided on a voluntary basis, notwithstanding that they might be able to obtain disclosure under statute. Although clients are not obliged to provide the information voluntarily, a professional accountant may in some cases think that it is advisable for them to do so. In other cases the professional accountant may believe that it is advisable for the client to decline to provide the information and await the exercise of statutory powers.*

## **Errors in the taxpayers' favour**

100. *The tax authorities may mistakenly make an excessive repayment of tax to a taxpayer, even though full disclosure of the facts has been made to the tax authorities. Where an excessive repayment is paid directly to a client, the professional accountant shall urge the client to refund the excess sum to the tax authorities as soon as the professional accountant becomes aware of the error. A client could be committing a civil and/or criminal offence if they have knowledge of the error and fail to correct it. Should a client refuse to refund the payment to the tax authorities, the professional accountant shall consider whether, in all the circumstances, they should continue to act for the client. Where a professional accountant ceases to act, they shall notify the tax authorities that they no longer act for the client but are under no duty to give the tax authorities any further details.*
101. *Where the excessive repayment is made to the professional accountant on the client's behalf, the professional accountant shall notify the tax authorities. Failure to do so could involve both the professional accountant and the client in a civil and/or criminal offence.*

## **Knowledge of offences relating to VAT or its equivalent**

102. *A professional accountant who suspects that a client has committed an offence relating to VAT or its equivalent shall ensure that they in no way facilitate or assist the client to commit any potential or actual criminal offence. The professional accountant shall advise the client to seek legal advice, particularly if criminal charges are likely to be made against the client. Where it seems likely that the tax authorities will settle without proceedings, the professional accountant shall, subject to legal advice, advise the client to make a full disclosure to the tax authorities and provide full facilities for investigation, so that a private settlement may be obtained, and having proceedings brought against the client with the accompanying publicity may be avoided.*
103. *If the client refuses to make or authorise disclosure, the professional accountant shall inform them that they can no longer act for them. The professional accountant shall also inform the client that it will be necessary to inform the tax authorities in similar terms to those set out in [paragraph 92](#) above.*
104. *For their own protection, in the event that the matter comes to the notice of the tax authorities before the client has disclosed it, a professional accountant shall ensure that their records of their advice to their client are such as to rebut any allegation that the professional accountant himself/herself was knowingly involved in the commission of any offence.*

## **VAT or its equivalent and accounts**

105. *If a professional accountant acquires information indicating that accounts they have prepared or audited, which have been submitted to the tax authorities, are defective, they shall proceed in accordance with the guidance contained in paragraphs 90 to 92 above.*

## SECTION B2

# Anti-money laundering

## Introduction

1. *Money laundering is a global phenomenon that affects all countries to varying degrees. It is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activity, often with the unwitting assistance of professionals such as accountants and lawyers. If undertaken successfully, it allows them to maintain control over the proceeds and, ultimately, to provide a legitimate cover for their sources of income. Money laundering also encompasses the process by which terrorists attempt to conceal the destination and ultimate purpose of funds (legitimate or otherwise) which are likely to be used for the purposes of terrorism.*
2. *The overarching principles set out in this section are intended to be consistent with the Recommendations issued by the Financial Action Task Force on Money Laundering (FATF), which today constitute the international benchmark for good practice in combating money laundering and the financing of terrorism. Most countries around the world now have legislation in place which is based on the Recommendations, although the way that different countries translate the Recommendations into local law often differs in material respects.*
3. *The guidance contained in this section sets out the type of preventative measures that a professional accountant shall adopt and the circumstances in which they shall consider reporting any knowledge or suspicions of money laundering activity to the authorities in the country in which they operate. A professional accountant shall ensure that they and their staff are fully aware of their obligations under local legislation, and is reminded that those obligations may be more stringent than the requirements of this section. In particular, a professional accountant shall be aware that failure to follow legislative requirements will be a criminal offence in many jurisdictions, leading to fines and/or imprisonment.*
4. *Guidance as to the principles of law that govern these issues is found elsewhere. Given the serious consequences of prosecution for money laundering offences, professional accountants are advised to take legal advice whenever they are uncertain as to their conduct. The legal position and its application to any given set of facts may not be straightforward.*

## Relationship with the local law

5. *A professional accountant shall obey the law. It is the responsibility of the professional accountant to familiarise himself/herself with the law that applies to them and ensure that they work within the law. In particular, the professional accountant is expected to familiarise himself/herself with any particular definition of the term "money laundering" which is used in local legislation and interpret this section by reference to that definition.*
6. *So far as this section may be inconsistent with any local statutory provision, rule of law or any direction or order of a court of competent jurisdiction that may from time to time be applicable to a professional accountant, compulsion of law shall be a defence to a breach of any provision of this section, and this section shall be read as being subject to the applicable provision of the law.*

## **Internal controls and policies**

7. *A professional accountant shall ensure that relevant staff in his/her firm receive regular training to ensure that client identification procedures are carried out in respect of new clients and that the staff are competent to identify money laundering or terrorist financing activity where they come across it.*
8. *A professional accountant shall ensure that his/her firm identifies for the benefit of relevant staff a clear procedure for the in-house reporting of suspected money laundering and terrorist financing activity which the staff come across in the course of their work in the firm. This procedure could involve the appointment of a suitable senior member of the firm as the person to whom queries are directed and suspicions reported. Where there is a local legal requirement for firms to report knowledge or suspicions to the authorities, the person performing this role could make the final judgement on, and take the final responsibility for, deciding on behalf of the firm whether a matter should be reported.*

## **Client identification**

9. *Before any work is undertaken, the professional accountant shall verify the identity of the potential client by reliable and independent means. The professional accountant shall retain on their own files copies of such evidence, as set out in paragraph 17. This will involve the following:*
  - (a) *where the client is an individual: by obtaining independent evidence of the client's identity, such as a passport and proof of address;*
  - (b) *where the client is a company or other legal entity: by obtaining proof of incorporation; by establishing the primary business address and, where applicable, registered address; by establishing the structure, management and ownership of the company; and by establishing the identities of those persons instructing the professional accountant on behalf of the company and verifying that those persons are authorised to do so;*
  - (c) *in either case: by establishing the identity and address of any other individuals exercising ultimate control over the client and/or who will be the ultimate beneficiaries of the work or transactions to be carried out; and*
  - (d) *by establishing precisely what work or transaction is desired to be carried out and to what purpose.*
10. *If the professional accountant is unable to satisfy himself/herself as to the potential client's identity, no work shall be undertaken.*
11. *Save where paragraph 12 applies, where a professional accountant is instructed by another person on behalf of their principal, the professional accountant shall satisfy himself/herself of both the identity of the person instructing the professional accountant and their principal as if both were clients under paragraph 9. The professional accountant shall retain these copies on their files in line with the requirement in paragraph 17 below.*
12. *Where a professional accountant is instructed by another Regulated Professional on behalf of their client, the professional accountant shall satisfy himself/herself that the identity of the common client has been sufficiently established by asking to see copies of the evidence obtained by the Regulated Professional. The professional accountant shall retain these copies on his/her files in line with*

the requirement in paragraph 17 below. "Regulated Professional" means for the purposes of this section a professional who is subject to equivalent anti-money laundering legislation which complies with the FATF Recommendations.

13. *Once a professional accountant has established on reasonable evidence that they are instructed by another Regulated Professional, it is generally not necessary for the professional accountant to obtain and evidence further proof of the identity and structure of the instructing Regulated Professional.*
14. *Subject to any local legal requirement to the contrary, a professional accountant is not required to verify the identity of existing clients, provided they are known personally to the professional accountant and the professional accountant has acted for them on a regular basis in the past three years. Where there has been little or no contact with clients in the preceding three year period, the identity of such clients shall be established as if they were new clients prior to any work being undertaken by the professional accountant.*
15. *If at any time during the course of a client relationship a professional accountant begins to have doubts about the client's identity, further evidence shall be obtained. If a professional accountant is unable to satisfy himself/herself, the client relationship shall be terminated.*
16. *During the course of a client relationship, a professional accountant shall regularly review the history of the relationship to satisfy himself/herself that the work or transactions being carried out is/are consistent with the client's usual activities. Anything that appears to be out of the ordinary for that particular client, such as an unusual pattern of transactions or an unusually large transaction, shall be closely examined and a written record made of the professional accountant's conclusions. If a professional accountant's suspicions are aroused, a report shall be made in accordance with paragraph 20 below.*

## **Record keeping**

17. *Subject to any local legal requirement for a longer period of record retention, a professional accountant shall retain all client identification records for at least five years after the end of the client relationship. Records of all transactions and other work carried out, in a full audit trail form, shall be retained for at least five years after the conclusion of the transaction.*

## **Recognition of suspicion**

18. *Suspicion can be described as being more than speculation but falling short of proof based on firm evidence. A particular set of circumstances which may be suspicious in relation to one client may not be suspicious in relation to another client. Therefore, the key to recognising a suspicious transaction or situation is for a professional accountant to have sufficient understanding of his/her clients and their activities.*
19. *A professional accountant shall pay special attention to transactions in which clients are involved that appear to have no apparent economic or visible lawful purpose. Whenever such transactions occur, their background and purpose shall, as far as possible, be examined and any findings recorded in writing. If no purpose for the transaction can be established, this may be a ground for suspicion.*

## **Reporting suspicious transactions**

20. *In most countries, accountants in practice will be subject to a legal requirement to report knowledge or suspicions of money laundering or terrorist financing to an appropriate national authority. All countries which follow the FATF Recommendations are expected to impose such a requirement. The requirement to report may be broadly based, and apply in respect of information that accountants come across in any part of their professional work, or it may be more focused, and apply only to information they acquire while carrying out specified activities, such as dealing with client funds. A professional accountant shall familiarise himself/herself with the exact nature of any local reporting obligation. Where a requirement to report applies, a professional accountant shall comply promptly with his/her obligation to do so. In this context, professional accountants are reminded that tax evasion will usually be deemed a crime and that they may be required to make an additional report to the tax authorities.*
21. *Some countries may require a report to be made only where the suspicion relates to the proceeds of specified serious crimes, or to proceeds of crimes which exceed a set monetary threshold. By contrast, in other countries (the United Kingdom, for example) suspicions relating to the proceeds of any crime must be reported.*
22. *Subject to any local legal requirement to the contrary, where the work done by a professional accountant for clients is covered by legal professional privilege, the professional accountant is not required to report his/her suspicions. Whether or not legal professional privilege applies to a professional accountant and in what circumstances will depend on local law and professional accountants are strongly advised to seek legal advice as and when the issue arises.*

## **Tipping off**

23. *A professional accountant shall not “tip off” a client that a report has been made. If a suspicion has arisen during the course of client identification procedures, the professional accountant shall take extra care that carrying out those procedures will not tip off the client. In particular, ceasing to act for a client without giving any plausible explanation might tip off the client that a report has been made. However, any attempts to persuade a client not to proceed with an intended crime will not constitute tipping off.*

## **Advisory Services**

24. *A professional accountant faced with money laundering issues may call upon the Advisory Services Section within ACCA for confidential advice.*



## **SECTION B3**

# **Whistleblowing responsibilities placed on auditors**

## **Introduction**

1. *In certain circumstances, an auditor may be required to report to the appropriate regulator if a client has not complied with any law or regulation or if any other matters occur which give rise to a reporting obligation. For example, an auditor of financial institutions which are subject to statutory regulation in the United Kingdom is required to report to the regulator any information which may be of material significance to that regulator, such as the client's breach of a regulation or a serious downward turn in the client's financial position.*
2. *An auditor shall ensure that he/she is aware of the requirements identified in the relevant local legislation and regulatory framework that assist the auditor in identifying matters that must be reported.*
3. *Failure to report may constitute an offence and could render an auditor liable to fines or even imprisonment.*
4. *Professional accountants are referred to the International Standards on Auditing or the equivalent standards of the country in which the professional accountant practises for further detail as to the types of non-compliance that must be reported and the appropriate authorities to whom reports must be made.*

## **Whistleblowing duty: non-compliance with law or regulation**

5. *Where an auditor becomes aware of a suspected or actual non-compliance with law or regulation, which gives rise to a statutory right or duty to report, he/she shall report this to the proper authority immediately.*
6. *Save where paragraph 7 applies, where an auditor becomes aware of a suspected or actual non-compliance with law or regulation and he/she concludes that it is a matter that must be disclosed in the public interest, the auditor shall notify the directors, trustees, etc. in writing of their view. If the entity does not voluntarily make a disclosure of the default, or is unable to provide evidence that the matter has been reported, the auditor shall report it himself/herself to the proper authority.*
7. *Where there is a real risk that disclosure to the directors or trustees might prejudice any investigation or court proceedings or is proscribed by law (for example, in the UK where it might constitute the offence of "tipping off") and the auditor becomes aware of a suspected or actual non-compliance with law or regulation, the auditor shall make his/her report to the proper authority without delay and without first informing the directors, trustees, etc. Occasions when disclosure may give rise to prejudice include where the disclosure is of a matter which casts doubt on the integrity of the directors, trustees, etc., or their competence to conduct the business of the regulated entity and which gives rise to a statutory duty to report.*

## **Circumstances indicating non-compliance with law or regulation**

8. *An auditor shall have a general understanding of the laws and regulations that are central to an entity's ability to carry out its business.*
9. *The laws and regulations affecting companies may vary from country to country. The following examples (a) to (d), whilst not exhaustive, highlight some circumstances where an entity may be in breach of a law or regulation under UK law:*
  - (a) *an entity whose main activity is the development of a single property should be complying with the appropriate planning regulations (including planning permission);*
  - (b) *an entity whose main activity is waste disposal should hold the relevant licences to allow it to dispose of hazardous waste;*
  - (c) *an entity whose main activity is financial services work, such as investment business, should hold appropriate authorisation to undertake this type of activity;*
  - (d) *when undertaking the audit of a pension scheme, an auditor shall ensure that he/she understands concepts such as the minimum funding requirement, the contributions schedule etc., since the auditor will be required to report any breach of the scheme's rules, that is material to the regulator, to the proper authority.*

## **Professional duty of confidence**

10. *Disclosure by an auditor shall not constitute a breach of any obligation of confidence imposed by the fundamental principle of confidentiality provided that:*
  - (a) *disclosure is made in the public interest;*
  - (b) *disclosure is made to a proper authority; and*
  - (c) *there is no malice motivating the disclosure; or*
  - (d) *disclosure is made under compulsion of law.*
11. *Auditors are reminded that the duties of confidence owed to clients are also questions of law and that the law may vary from country to country. An auditor shall take legal advice before making a decision on whether a disclosure of a suspected or actual non-compliance with law or regulation shall be made to a proper authority in the public interest.*

## **Method of reporting**

12. *An auditor making a disclosure of a suspected or actual non-compliance with law or regulation directly to a proper authority shall ensure that their report includes:*
  - (a) *the name of the entity;*
  - (b) *the statutory authority under which the report is made;*
  - (c) *the auditing standard under which the report has been prepared;*

- (d) the context in which the report is made;
- (e) the matters giving rise to the report;
- (f) a request that the recipient acknowledge that the report has been received; and
- (g) their name and the date on which the report was written.

## **Whistleblowing duty: other matters of material significance**

13. A professional accountant shall familiarise himself/herself with and comply with the law. An auditor not only has a professional duty but may also have a statutory duty to report directly to a regulator where, in the course of their work, the auditor becomes aware of a matter that is, or is likely to be, of material significance in determining either, by way of illustration, in the UK:
- (a) whether a person is a fit and proper person to carry on the regulated work; or
  - (b) whether disciplinary action should be taken, or powers of intervention exercised, in order to protect clients against significant risk of loss.
14. The following circumstances may require an auditor to make a report:
- (a) when there has been an adverse change in the circumstances of the business;
  - (b) where an event has resulted in a material loss or loss of control over the assets or records which would impact on the entity's ability to adhere to the rules and regulations for the conduct of the regulated business; and
  - (c) where the financial position of the entity is such that clients' interests might be better safeguarded if the matter were reported to the regulator.
15. Auditors of certain entities may be required to report directly to regulators where they discover non-compliance with law or regulation.

## **Non-audit assignments**

16. Whilst the whistleblowing responsibilities outlined above apply to auditors, professional accountants shall bear in mind the foregoing guidance for non-audit situations.
17. Where a professional accountant becomes aware of a suspected or actual non-compliance with law or regulation, the professional accountant shall consider its impact on the reporting entity. A professional accountant has a professional duty to ensure that all accounts/returns that they are party to are not in any way incorrect or misleading.
18. Where a professional accountant becomes aware of irregularity and the client does not take steps to correct it and notify the proper authority, the professional accountant shall not only consider their position but whether they must make voluntary disclosure to a third party. Before making any disclosure, a professional accountant shall consider taking legal advice and is referred to [Section B1](#), Professional duty of confidence in relation to defaults and unlawful acts of clients and others, for further guidance.

## **SECTION B4**

# **Descriptions of professional accountants and firms and the names of practising firms**

## **General**

1. *This section is split into two parts: Part I deals primarily with descriptions of professional accountants and firms and Part II deals with the names of practising firms. The annexes deal with specific requirements for professional accountants based in the UK and in Ireland.*
2. *For the purpose of this section, a firm is one whose main business is that of the provision of services customarily provided by Chartered Certified Accountants.*
3. *The terms "firm" and "practice" include partnerships, corporations (including limited liability partnerships) and sole practitioners.*
4. *The term "professional stationery" includes websites and other electronic materials by which a firm communicates or markets itself.*

## **Part I – Descriptions of professional accountants and firms**

### **Professional accountants' descriptions**

5. *A member of ACCA may be either a Member or a Fellow and is entitled to use the professional designation "Chartered Certified Accountant" or "Certified Accountant".*
6. *A professional accountant may use the designatory letters "ACCA" (for a Member) or "FCCA" (for a Fellow).*
7. *A professional accountant is not permitted to add Honours or Hons after a designation noted in paragraph 5 above, nor is a professional accountant permitted to add Honours or Hons after the designatory letters noted in paragraph 6 above, even though the professional accountant may have earned a place of merit in the final examination and have been so shown in the pass list. No honours are awarded in ACCA's examinations.*

### **Membership of other accountancy bodies**

8. *A professional accountant may use on professional stationery words showing membership of other accountancy bodies or of organisations in any field related to accountancy.*
9. *Where a professional accountant belongs to two or more accountancy bodies they shall either use all their designatory letters on their professional stationery or none at all.*

## **Other designatory letters**

10. A professional accountant who holds a civil or service honour (such as CBE, DSO, DFC, etc.) or a civil office (such as MP, etc.) is entitled to use the appropriate designatory letters on their professional stationery if they so wish. The designatory letters for a Justice of the Peace (JP) or its equivalent outside the United Kingdom shall not be included on professional stationery.
11. Before including designatory letters a professional accountant shall consider carefully how far (if at all) a statement of such honours or offices is relevant to the professional services they offer.
12. Any reference to honours or appointments would be entirely inappropriate in signing any audit report or other expression of professional opinion.

## **Compliance with ACCA Charter, bye-laws, regulations and Code of Ethics and Conduct**

13. A firm which uses any of the descriptions, statements or logos set out in paragraphs 14 to 20 below is deemed to have undertaken to comply with the ACCA Charter, bye-laws, regulations and Code of Ethics and Conduct.

## **Practice descriptions**

14. The descriptions "Chartered Certified Accountant(s)", "Certified Accountant(s)", "Statutory Auditor(s)" or "Registered Auditor(s)" shall not form part of the name of a firm, company or limited liability partnership. (For example, a limited liability company shall not include the description in the name which is registered with Companies House in the United Kingdom or its equivalent elsewhere.) Similarly, the designatory letters "ACCA" or "FCCA" shall not form part of the name of a firm, company or limited liability partnership.
15. A firm (containing holders of practising certificates of whatever category or insolvency licences) may describe itself as a firm of "Chartered Certified Accountants", "Certified Accountants" or "an ACCA practice" only where:
  - (a) at least half of the partners (or directors in the case of a company, or members in the case of a limited liability partnership) are ACCA members, and
  - (b) the principals noted in 15(a) above control at least 51 per cent of the voting rights under the firm's partnership agreements (or constitution).

## **Statements on professional stationery**

16. A firm in which all the partners are Chartered Certified Accountants may use the description "Members of the Association of Chartered Certified Accountants".
17. A mixed firm may wish to make it clear that some partners (or directors) are Chartered Certified Accountants and some are (to give a United Kingdom example) Chartered Accountants. Such a firm may not use the description "Chartered Certified Accountants and Chartered Accountants" or "Chartered and Certified Accountants", but may use the following statement on its stationery (providing the Chartered Accountants within the firm have permission from their own Institute(s) to use the statement):

*"The partners (or directors) of this firm are members of either the Association of Chartered Certified Accountants or the Institute of Chartered Accountants in England and Wales (of Scotland / in Ireland)".*

18. Generally, the designation of any overseas body shall not be used in combination with "Chartered Certified Accountant(s)" or "Certified Accountant(s)", other than in the style of the statement set out in paragraph 17 above, unless the legislation of the country in which the practitioner is based overrides this requirement.

## **Use of the ACCA name and logo**

19. Notwithstanding [paragraphs 5](#) and 6 above, a professional accountant is not permitted to do the following:
- (a) form or incorporate a firm, partnership, company or limited liability partnership incorporating or consisting of any of the terms in paragraphs 5 and 6 above or any confusingly similar term; and/or
  - (b) register a domain name or trade mark incorporating or consisting of any of the terms in paragraphs 5 and 6 above or any confusingly similar term.
20. A firm that has at least one ACCA member as a partner or director may use the ACCA logo on letterheads, other stationery and on an Internet site, subject to the restriction that it may not be used unless a firm is controlled overall by holders of recognised accountancy qualifications. The logo shall be used in an appropriate manner, so that it cannot be confused with the logo of the firm, for example, in conjunction with the regulation statement in respect of audit or financial services, such as exempt regulated activities in the United Kingdom.
21. The overriding design consideration is that the positioning, size and colour of the ACCA logo shall not compromise its recognition. The ACCA logo is square and shall not be cropped or altered in any way. The logo must appear in black or red (Pantone 485). A member in an eligible firm wishing to use the ACCA logo shall request the logo artwork and guidelines from ACCA by telephoning +44 (0)141 534 4237 or emailing [logo@accaglobal.com](mailto:logo@accaglobal.com) and providing the member's practising certificate number and membership number.

## **Sole practitioners**

22. A sole practitioner may use the plural form of Chartered Certified Accountants or Certified Accountants and/or Registered Auditors and/or Licensed Insolvency Practitioners to describe their firm providing they hold the appropriate certificate, and either:
- (a) they apply the suffix "& Co." after their name, or
  - (b) otherwise trade under a business name which is not the same as their personal name.
23. A professional accountant who is a sole practitioner may describe himself/herself as a "Member of the Association of Chartered Certified Accountants".

## **Specialisms**

24. A firm may include a list of the services it provides on its professional stationery.
25. A firm may use a description indicating a specialism in any area of work, for example, "Tax advisers", provided that:
- (a) it is competent to provide the specialisms shown, and
  - (b) the content and presentation of the descriptions do not bring ACCA into disrepute or bring discredit to the firm or the accountancy profession.

## **Persons named on professional stationery**

26. It shall be clear from reading a firm's professional stationery whether any person named on it is a principal in that firm (i.e. a partner, sole practitioner or director).
27. A firm may include the name of any person who is not a principal of the practice on the professional stationery of the practice. Where such a person is named on the stationery a description about this person, e.g. "Manager", "Tax Consultant", etc. shall also be included by their name.
28. The names and descriptions of principals shall be clearly separated from those of non-principals so that they cannot be mistaken for each other.
29. Any person named on professional stationery shall be competent and have the necessary eligibility and qualifications to provide any specialism shown. They shall be described only by the titles, descriptions and designatory letters to which they are properly entitled.
30. Any description used on a firm's professional stationery shall not bring ACCA into disrepute or bring discredit to the practice or the accountancy profession.

## **Part II – The names of practising firms**

### **General**

31. Subject to the bye-laws and the following rules, a professional accountant may practise under whatever name or title they see fit.
32. A practice name shall be consistent with the dignity of the profession in the sense that it shall not project an image inconsistent with that of a professional bound by high ethical and technical standards.
33. A practice name shall not be misleading.
34. A practice name would be objectionable if in all the circumstances there was a real risk that it could be confused with the name of another firm, even if the member(s) of the practice could lay justifiable claim to the name.
35. A practice name may indicate the range or type of services offered by the firm.
36. It has been the custom of the profession for professional accountants to practise under a firm's name based on the names of past or present members of the firm itself or of a firm with which it has merged or amalgamated. A practice name so derived will usually be in conformity with this guidance.

## Discussion

37. *It would be misleading for a firm with a limited number of offices to describe itself as “international” even if one of them was overseas.*
38. *A firm may trade under different names from different offices providing that this does not mislead.*
39. *A firm may be a member of a trading association and may indicate this on the firm’s note paper or elsewhere in proximity to the practice name. However, the practice name of such a firm shall be clearly distinguishable from the name of the associated firm or group. Thus, it would be misleading for a member of a trading group to bear the same name as the group. There would be no objection to a firm practising under its own name and including a statement on its professional stationery to the effect that it is “a member of (a named) accountancy group”.*
40. *It would be misleading for a sole practitioner to add the suffix “and partners” to their firm’s name.*
41. *Similarly, it would be misleading for a firm to add the suffix “and Associates” to its business name unless it has two or more formal associations/consultancies in existence which can be demonstrated to exist.*

## Legal requirements

42. *A practice name shall comply with partnership, limited liability partnership and company law as appropriate, and with any other local legislation, such as the Companies Act 2006 in the United Kingdom. A practising firm may describe itself in any manner conformable to the practice of the profession locally provided that the principles set out in paragraphs 31 to 33 of this section are observed.*

## New and changed names

43. *When choosing a firm’s name or considering changing a firm’s name, professional accountants are recommended, as a means of ensuring compliance with this guidance, to consult with the Advisory Services Section as to the propriety of the proposed name. This is particularly so where the new name will not be based on the name of past or present members of the firm itself or of a firm with which it has merged or amalgamated.*

## Use of firm’s name and premises

44. *A professional accountant shall not give permission to a third party to use their name, premises, professional stationery, etc. There is a real danger that the public could mistake the third party for the professional accountant if such permission were to be given.*

## Advisory Services

45. *A professional accountant with a query regarding description of professional accountants and firms may call upon the Advisory Services Section within ACCA for advice.*
46. *Professional accountants are also referred to guidance ACCA has issued for professional accountants on description of professional accountants and firms. This can be viewed at <https://www.accaglobal.com/uk/en/member/regulation/factsheets.html>.*



## **Additional requirements for descriptions of professional accountants and firms and the names of practising firms for the UK**

The requirements set out below shall apply to professional accountants in the UK.

### **Registered Auditors**

1. A firm holding a firm's auditing certificate issued by ACCA may describe itself as "Registered Auditors".
2. A firm meeting the conditions set out in paragraph 1 above should add the following statement to its business stationery:  

*"Registered as auditors in the United Kingdom by the Association of Chartered Certified Accountants".*
3. Where appropriate, the statement set out in paragraph 2 may be combined with the exempt regulated activities statement (paragraph 10 below) as follows:  

*"Registered as auditors and regulated for a range of investment business activities in the United Kingdom by the Association of Chartered Certified Accountants".*
4. In the conduct of audit work, a holder of an audit qualification or a firm holding an auditing certificate shall use the designation "Registered Auditor" or "Registered Auditors" when signing audit reports for accounting periods commencing on or before 5 April 2008.
5. For accounting periods commencing on or after 6 April 2008, the audit report shall:
  - (i) state the name of the auditor and be signed and dated;
  - (ii) where the auditor is an individual, be signed by him/her;
  - (iii) where the auditor is a firm, be signed by the senior statutory auditor in his/her own name, for and on behalf of the auditor, and use the designation "Senior Statutory Auditor" after his/her name;
  - (iv) state the name of the firm as it appears on the register; and
  - (v) use the designation "Statutory Auditor" or "Statutory Auditors" after the name of the firm.
6. The auditor's name and, where the auditor is a firm, the name of the person who signed the report as senior statutory auditor may be omitted from published copies of the report and the copy of the report to be delivered to the registrar of companies if the conditions set out in section 506 of the Companies Act 2006 are met.

## ***Insolvency practitioners***

7. *A professional accountant who holds a current insolvency licence may describe himself/herself as a "Licensed Insolvency Practitioner". Professional accountants who hold a current insolvency licence issued by ACCA shall add either one of the following statements to their business stationery:*
- "Licensed in the United Kingdom to act as an insolvency practitioner by the Association of Chartered Certified Accountants" or*
- "Insolvency Practitioner licensed in the United Kingdom by the Association of Chartered Certified Accountants".*
8. *A firm composed wholly of insolvency licence holding partners/directors (whether issued by ACCA or other Recognised Professional Bodies or the Competent Authority under the Insolvency Act 1986 or Insolvency (Northern Ireland) Order 1989) may describe itself as a firm of "Licensed Insolvency Practitioners".*

## ***Investment business***

9. *ACCA, as a designated professional body, regulates firms in carrying out a limited range of investment business activities, which are incidental to the provision of professional services in that name only.*
10. *Firms that carry on exempt regulated activities are referred also to regulation 6(6) of the Designated Professional Body Regulations 2001. The approved wording for the purpose of regulation 6(6) is as follows:*
- "Regulated for a range of investment business activities by the Association of Chartered Certified Accountants".*
11. *A firm that conducts exempt regulated activities may, without undue prominence, use the logos of investment business organisations of which they are a member on their professional stationery. (Professional accountants are also advised to refer to the Designated Professional Body Regulations 2001.)*

## **Additional requirements for descriptions of professional accountants and firms and the names of practising firms for Ireland**

*The requirements set out below shall apply to professional accountants in Ireland.*

### **Registered Auditors**

1. *A firm holding a firm's auditing certificate issued by ACCA may describe itself as "Registered Auditors".*
2. *A firm meeting the conditions set out in paragraph 1 above should add the following statement to its business stationery:*  
*"Registered as auditors in Ireland by the Association of Chartered Certified Accountants".*
3. *Professional accountants are reminded that, under the terms of the Association's recognition under the Companies Act 1990, the term "Registered Auditor(s)" shall be used when signing any company audit report for accounting periods commencing before 20 May 2010. This includes limited company audits, audits of other bodies specified under the Companies Act 1990 or other entities required by their constitutions to be audited by a Registered Auditor.*
4. *Following the introduction of the European Communities (Statutory Audits) (Directive 2006/43/EC), for accounting periods commencing on or after 20 May 2010, the audit report shall:*
  - (i) *state the name of the auditor and be signed and dated;*
  - (ii) *where the auditor is an individual, be signed by him/her;*
  - (iii) *where the auditor is a firm, be signed by the statutory auditor in his/her own name, for and on behalf of the firm; and*
  - (iv) *state the name of the firm as it appears on the public register of the Registrar of Companies.*
5. *In addition, in the event that an audit report is signed by a firm with a firm's auditing certificate, the audit report shall additionally identify the professional accountant(s) and/or other specified person(s) in relation to that firm responsible for the conduct of that audit.*

### **Investment business**

6. *An investment business certificate (Ireland) issued by ACCA authorises the firm named in the certificate to carry on investment business in that name only. Accordingly, if a firm wishes to conduct investment business under another practice name, it must apply for a separate investment business certificate (Ireland) and pay the appropriate fee.*
7. *Firms that carry on investment business in the Republic of Ireland are referred to [regulation 7\(2\)](#) of the Irish Investment Business Regulations 1999. The approved wording for the purpose of regulation 7(2) is as follows:*  
*"Authorised to undertake investment business services in Ireland by the Association of Chartered Certified Accountants".*

## **SECTION B5**

# **Legal ownership of, and rights of access to, books, files, working papers and other documents**

## **Introduction**

1. *This section sets out the requirements governing the ownership of records, documents and papers. In the course of practice, a professional accountant will either create or come into possession of records, documents and papers which may belong to the professional accountant or may belong to the professional accountant's clients. In certain circumstances a professional accountant may be able to retain records, documents and papers belonging to clients pending payment of outstanding fees. Note that such rights to a lien may be subject to important qualifications which enable clients and third parties to have access to any records, documents and papers in the professional accountant's possession.*
2. *The term "documents and papers" does not just mean documents stored on paper. The term extends to information stored on microfilm, and also to information stored electronically.*
3. *The underlying principles of ownership and liens over records, documents and papers are governed by law and the contract that the professional accountant enters into with their client. A professional accountant shall comply with the requirements of the local law that applies to their dealings with their client.*
4. *Guidance as to the principles of law that govern these issues is found elsewhere. Professional accountants are advised to take legal advice wherever an issue as to ownership or possession of records, documents and papers may arise. The legal position and its application to any given set of facts may not be straightforward. Under English law, by way of illustration, the position may be summarised as follows:*
  - (a) *Documents belonging to clients must be given to clients, or their agents, on request, except for those cases where the professional accountant is able to exercise a right of lien.*
  - (b) *For documents belonging to the professional accountant, the decision whether to allow the client (or their agents) to inspect them rests with the professional accountant. The client has no right to demand access.*
  - (c) *Where a client asks the professional accountant to disclose documents to a third party and those documents belong to the client, the professional accountant shall disclose the documents unless the professional accountant is exercising their rights of lien. Where documents belong to the professional accountant, they are not obliged to comply with the request.*
5. *Professional accountants are reminded that they may act for their clients in different capacities and this may affect their rights to ownership and possession of records, documents and papers. Thus, by way of illustration, under English law an accountant may find himself/herself acting for clients either as principal or as an agent, depending on the nature of the work covered by the engagement.*

## **Relationship with the local law**

6. *A professional accountant shall obey the law. It is the responsibility of professional accountants to familiarise themselves with the law that applies to them and ensure that they work within the law.*
7. *So far as the requirements of this section may be inconsistent with any local statutory provision, rule of law or any direction or order of a court of competent jurisdiction that may from time to time be applicable to a professional accountant, compulsion of law shall be a defence to a breach of any provision of the requirements and these requirements shall be read as being subject to the applicable provision of the law.*

## **The contract**

8. *It is permissible for a professional accountant (to the extent they are permitted by law) to record and regulate any rights to ownership over any or any identified classes of records, documents and papers created by the professional accountant in the contract between the professional accountant and their client.*
9. *It is permissible for a professional accountant (to the extent they are permitted by law) to record and regulate any right to assert a lien or other security and the rights attaching to the same for their unpaid fees over records, documents and papers owned by the professional accountant in the contract between the professional accountant and their client.*

## **Preservation of documents**

10. *Where a professional accountant retains possession over documents that belong to a client whether to undertake work or to assert any lien or security over them, it is the duty of the professional accountant to make effective and appropriate arrangements to ensure that such records, documents and papers are at all times preserved safely, orderly and securely.*
11. *Where a professional accountant ceases to be entitled to retain possession over a client's records, documents and papers and their return has been demanded by a client, he/she shall deliver up all such records, documents and papers to his/her client or to his/her client's lawyer or accountant promptly and safely. Nothing herein shall prevent a professional accountant from retaining (to the extent permitted or required by law) a copy of a client's file.*

## **Liens**

12. *Nothing in this section shall prevent a professional accountant from asserting (to the extent permitted by law) a lien or other security for unpaid fees to retain possession of property owned by a professional accountant's client until the client pays what he/she owes the professional accountant.*
13. *The exercise of a right of lien does not absolve the professional accountant from the requirement to supply the transfer of information required by Section 320, Professional appointments, [paragraphs 320.14](#) to 320.16.*
14. *Professional accountants are recommended to obtain legal advice before seeking to exercise a lien in any but the most straightforward of cases. A professional accountant shall advise a client disputing a right of lien of the professional accountant to consult their own solicitors. By way of illustration, under English law no lien can exist:*

- (a) over books or documents of a registered company that, either by statute or by the articles of association of the company, have to be available for public inspection or to be kept at the registered office or some other specified place or be dealt with in any special way;
- (b) over accounting records within section 386 of the Companies Act 2006;
- (c) over VAT returns.

## **Duty of confidentiality**

- 15. *The duty of confidentiality owed by a professional accountant to his/her client is not affected by whether the professional accountant owns the record, document or paper or not.*
- 16. *The duty of confidentiality owed by a professional accountant to his/her client is not affected by whether the professional accountant asserts a lien or other security over the client's record, document or paper or not.*
- 17. *Professional accountants are reminded that voluntary access to information or documents may be given only where one of the following applies:*
  - (a) *the client has given his/her consent before disclosure; or*
  - (b) *the professional accountant's duty of confidentiality is overridden by the powers of a third party to require access; or*
  - (c) *the professional accountant considers himself/herself to be obliged to volunteer information in the circumstances set out in the fundamental principle of confidentiality and [Section B1](#), Professional duty of confidence in relation to defaults and unlawful acts of clients and others.*

## **Access to client papers**

- 18. *Subject to any lawful assertion of a lien or other security, a professional accountant shall permit his/her client access to such records, documents and papers as belong to his/her client.*
- 19. *Where a request for access to records, documents or papers is made by a person other than the client or on behalf of a client (for example, by a director seeking access to the papers of a company), it is permissible for a professional accountant, given his/her duty to maintain client confidentiality, to withhold or defer access to a client's records, documents and papers until the professional accountant is satisfied that he/she has seen appropriate and adequate authorisation to make such disclosure.*
- 20. *A professional accountant shall obtain written authority from his/her client before the professional accountant permits access by any third party to a client's books, records or papers whether such records, documents or papers are owned by the client or the professional accountant. Professional accountants are recommended that such written authority include an indemnity from any claims arising out of the disclosure and that the letter identify the proposed transaction in connection with which access has been requested, and record the fact that the working papers were not prepared or obtained with that transaction in mind. It is appropriate to reflect in the letter the parties' agreement that:*

- (a) *the papers and any information provided by the professional accountant will not be used for any purpose other than the proposed transaction;*
- (b) *access to the papers and information will be restricted to the purchasers, the investigating accountants and the purchasers' other professional advisers;*
- (c) *any reliance that the purchasers or their investigating accountants may wish to place on the papers is entirely at their risk;*
- (d) *the professional accountant disclosing the papers accepts no duty or liability resulting from any decisions made or action taken consequent upon access to the working papers or the provision of information, explanations or representations by the professional accountant; and that*
- (e) *the purchasers will indemnify and hold harmless the professional accountant disclosing the papers against any claims from third parties arising out of permitting access or providing information, explanations or representations.*

21. *A professional accountant shall not disclose information about a client's affairs to a third party unless the client consents to disclosure or unless required by law or by a provision of the rules. By way of illustration, a non-exhaustive list under English law of occasions on which this principle may be overridden by third party rights of access might include:*

- (a) *where the professional accountant is compelled by a witness summons in litigation;*
- (b) *where a request is made of a professional accountant as secondary auditor in a group for access to papers by its primary auditor: see International Auditing Standard, Using the work of another auditor, ISA 600;*
- (c) *to prevent a crime;*
- (d) *where the professional accountant is required by a liquidator, administrator or administrative receivers to make delivery to them of any documents belonging to the company;*
- (e) *where required by ACCA, as a statutory regulator in respect of auditors, insolvency practitioners, those who undertake investment business or exempt regulated activities and in relation to its disciplinary functions;*
- (f) *where access is being sought by HM Revenue and Customs under the Taxes Management Act 1970 and the Value Added Tax Act 1994;*
- (g) *where required by an Inspector appointed by the Department for Business Innovation and Skills to report on the affairs of a company under section 434, Companies Act 1985;*
- (h) *where required by the Secretary of State for Business Innovation and Skills (and any officer or other competent person authorised by him/her) under section 447 of the Companies Act 1985;*
- (i) *where required under the Financial Services and Markets Act 2000 or the Banking Act 1987;*
- (j) *where required by an authorised officer of the European Commission under Article 11 of Council Regulation 17.*

## **Advisory Services**

22. *Professional accountants with queries regarding ownership and access to books and records may call upon the Advisory Services Section within ACCA for advice.*
23. *Professional accountants are also referred to guidance ACCA has issued for professional accountants on ownership and access to books and papers. This can be viewed at <https://www.accaglobal.com/uk/en/member/regulation/factsheets.html>.*



## **SECTION B6**

# **Retention periods for books, files, working papers and other documents**

## **Introduction**

1. *In determining the period for which audit, tax and other working papers and general client information shall be retained, consideration needs to be given to the following:*
  - (a) *legal requirements that specify the period of retention;*
  - (b) *the period of time during which actions may be brought in the courts for which the working papers may need to be available as evidence;*
  - (c) *the period of time for which information in the working papers may be required for use in compiling tax returns;*
  - (d) *the possibility that a company may seek a quotation on a recognised stock exchange;*
  - (e) *whether the papers in question form part of the books and records of a company.*
2. *Professional accountants are reminded that the period over which documents are retained may be influenced by questions of law. Those issues include but are not limited to, for the client, duties on the client to retain and make available records (for example, to the tax authorities) and, for the professional accountant, considerations like preserving their records for at least the limitation period so that they are available to meet any allegation of breach of contract or professional negligence. The law may differ from country to country. Professional accountants are advised to obtain their own legal advice on the law applicable in their countries.*

## **Trusteeships**

3. *A professional accountant who acts as trustee has a continuing responsibility to the beneficiaries. All records shall be retained at least until all transactions have been independently audited and a discharge received from all interested persons.*

## **General considerations**

4. *The retention of working papers involves expenditure on storage space and staff costs. It is permissible for a professional accountant, subject to statutory requirements to retain and preserve accounting records, to adopt a policy of retaining working papers relating to current clients for a longer period than for those clients for whom the professional accountant no longer acts.*

## Minimum periods for retention

5. *A professional accountant shall use his/her own judgement in determining the period for which working papers should be retained. The minimum periods for which a professional accountant shall retain working papers are as follows:*

<i>Audit working papers</i>	<i>7 years</i>
<i>Files on clients' or former clients' chargeable assets and gifts</i>	<i>8 years (then return them to the client or former client or obtain authority from the client or former client for their destruction)</i>
<i>Files of professional accountant as trustee (other than trustee in bankruptcy)</i>	<i>For the period of trusteeship and 7 years thereafter</i>
<i>Investment business advice</i>	<i>For the life of the policy and 3 years thereafter</i>

6. *Tax files and other papers that are legally the property of the client or former client shall be returned to the client (or former client) after 7 years or his/her specific authority obtained for their destruction.*
7. *Where it is possible that a defect in advice rendered to clients or former clients may not become apparent for a longer period than those set out above, the professional accountant may consider it prudent to retain working papers for at least this period of time. For example, the professional accountant shall consider retaining advice given on the creation of a trust for the period until the trust comes to an end.*

## **SECTION B7**

# **Activities through corporate or non-corporate organisations**

## **Introduction**

1. *Subject to the provisions of this section, professional accountants may carry on activities through any convenient vehicle, provided that in doing so they do not contravene local law or regulation.*

## **Provision of accountancy services through companies**

2. *A professional accountant may participate, whether as director and/or member and/or employee, in limited or unlimited companies and limited liability partnerships, which offer auditing and/or accountancy services to the public, provided that in doing so, they do not contravene the law of the country in which they practise.*
3. *Under English law, office holders under the Insolvency Act 1986, receivers, and trustees under deeds of arrangement must be individuals.*
4. *Where a professional accountant becomes a director of a limited or unlimited company or a member of a limited liability partnership which offers auditing services to the public, the professional accountant shall hold a practising certificate from ACCA. For the purposes of this paragraph, "auditing services" shall include the provision of reports and/or certificates relating to the financial statements.*
5. *Limited and unlimited companies and limited liability partnerships referred to in paragraph 2 above are permitted to advertise in accordance with [Section B13](#), Marketing professional services.*

## **Non-accountancy services**

6. *A professional accountant may participate in any capacity, in organisations, whether corporate or non-corporate, which offer services other than accountancy services to the public ("non-accountancy organisations"). In this context, "accountancy services" means services of a kind usually offered by firms of accountants.*
7. *Where a professional accountant participates in non-accountancy organisations and, in addition, participates in organisations offering services to the public:*
  - (a) *these organisations may operate from the same address; and*
  - (b) *the non-accountancy organisations may, if linked with other organisations, indicate the connection in their name, but that name must differ distinctively from that of the other organisations. Non-accountancy organisations shall not, in any other way, be used to attract audit or accountancy work to the other organisations.*

8. Non-accountancy organisations may:
- (a) advertise their services in accordance with [Section B13](#), Marketing professional services; and
  - (b) use any appropriate description, but may not describe themselves as “Chartered Certified Accountants” or “Certified Accountants”.

## **Organisations offering accountancy and non-accountancy services**

9. There is nothing to prevent a professional accountant from participating in any capacity in corporate or non-corporate organisations which offer both accountancy and non-accountancy services to the public but, in such cases, the professional accountant shall comply with the rules contained in Section B13, Marketing professional services, which relate to accountancy organisations.

## **Appointed representatives under the Financial Services and Markets Act 2000 in the United Kingdom**

10. In order that a firm at all times be free in the actions it undertakes of any interest which might detract from its objectivity it shall not enter into any association or arrangement with any person which may result in the practice being constrained or induced to recommend to a client transactions in some investments but not others, with some persons but not others, or through the agency of some persons but not others, unless so constrained by law.
11. Paragraph 10 does not apply to an appointment as an appointed representative within the meaning of section 39 of the Financial Services and Markets Act 2000 where the appointing organisation is itself, and at all times continues to be, free from any such interests or restrictions.
12. Insofar as appointments as a person’s representative in accordance with section 39 of the Financial Services and Markets Act 2000 are concerned, firms may accept such appointments within the scope of [regulation 5\(3\)\(b\)](#) of the Designated Professional Body Regulations.
13. A professional accountant in public practice who does not conduct exempt regulated activities (for example, a firm authorised by the Financial Conduct Authority) shall nevertheless safeguard their independence by regarding the provision contained in paragraph 10 above as applying to them.

## **General**

14. A professional accountant who engages in activities under this section is subject to the same ethical requirements as other professional accountants.
15. Professional accountants in doubt about the application of these provisions to their own circumstances are advised to consult the Advisory Services Section and, if necessary, obtain the approval of the Admissions and Licensing Committee before undertaking any activities hereunder.

## **SECTION B8**

### ***The obligations of consultants***

1. *A consultant professional accountant shall refrain from any action tending to change the relationship between other practitioners and their clients.*
2. *Any consultant professional accountant retained by another practitioner on a consultancy basis on behalf of a client shall not accept any work from the client which, at the time of consultation, was being carried out by the instructing practitioner unless:*
  - (a) *the instructing practitioner consents (such consent should not unreasonably be withheld); or*
  - (b) *a period of at least one year has elapsed since completion of the consultancy assignment; or*
  - (c) *exceptionally, where the interests of clients would otherwise be prejudiced.*
3. *A professional accountant shall consult the Advisory Services Section prior to accepting work on the basis of paragraph 2(c) above.*
4. *To the extent that there is any discrepancy between this section and the requirements of local legislation or regulation, a professional accountant shall follow whichever imposes upon them the more stringent requirement.*

## **SECTION B9**

# **Professional liability of accountants and auditors**

## **Introduction**

1. *This section is concerned only with the liability for professional negligence which a professional accountant may incur because of an act or default by him/ her or by one of his/her employees or associates which results in financial loss to a client or third party to whom a duty of care is owed. It does not deal with liability arising from other causes (for example, criminal acts, breaches of trust, or breaches of contract other than the negligent performance of its terms, and certain heads of liability arising by statute independently of contract).*
2. *In recent years there have been a number of cases where substantial sums have been claimed as damages for negligence against accountants and auditors. In a number of cases it appears that the claims may have arisen as a result of some misunderstanding as to the degree of responsibility which the accountant was expected to assume in giving advice or expressing an opinion. It is therefore important to distinguish between:*
  - (a) *disputes arising from misunderstandings regarding the duties assumed; and*
  - (b) *negligence in carrying out agreed terms.*
3. *This section sets out the global rules governing professional accountants and how they contract with clients or deal with third parties. The underlying principles are governed by law and the contract that a professional accountant enters into with their client. A professional accountant shall comply with the requirements of the local law that applies to their dealings with their client.*
4. *Guidance as to the principles of law that govern these issues is found elsewhere. Professional accountants are advised to take legal advice wherever an issue may arise. The legal position and its application to any given set of facts may not be straightforward.*

## **Engagement letters**

5. *A professional accountant shall record in writing and send to their client a letter of engagement which sets out the terms under which they are agreeing to be engaged by their client before any work is undertaken or, if this is not possible, as soon as practicable after the engagement commences. The professional accountant shall ensure that at the time he/she agrees to perform certain work for the client a letter of engagement is prepared which clearly defines the scope of his/her responsibilities and the terms of his/her contract with his/her client. The letter of engagement shall set out in detail the actual services to be performed, the fees to be charged, or the basis upon which fees are calculated, and the terms of the engagement should be accepted by the client so as to minimise the risk of disputes regarding the duties assumed. Accordingly, the professional accountant shall ensure they retain a copy of the engagement letter which has been signed by the client. Where new work is to be undertaken or any terms have changed, the professional accountant shall send a new letter*

of engagement. It may also be helpful for the avoidance of misunderstandings to indicate any significant matters which are not included in the scope of responsibilities undertaken, although it will rarely be possible to provide a comprehensive list of matters excluded. Again, the professional accountant shall retain a copy of the new engagement letter which has been signed by the client.

## **Excluding or restricting liability to a client**

6. *It is permissible for a professional accountant to include in the letter of engagement terms limiting or restricting a professional accountant's liability for negligence or breach of contract to a client. Professional accountants are reminded that an agreement with a client designed to exclude or restrict a professional accountant's liability will not always be effective in law. By way of illustration under English, Welsh and Northern Ireland law:*
  - (a) Section 2 of the Unfair Contract Terms Act 1977 renders void any contractual exclusion or restriction of liability for negligence, even in a case where the client has agreed to it and where legal consideration exists, unless the person seeking to rely on that exclusion or restriction can show that it was reasonable.
  - (b) The Unfair Terms in Consumer Contracts Regulations 1999 make unenforceable any "unfair term" in a contract between a supplier and a "consumer"; but if a term limiting liability has been found to be "reasonable" for the purposes of the 1977 Act, it is thought unlikely that it would be held to be "unfair" for the purposes of the 1999 Regulations.

*While a professional accountant may wish to make specific disclaimers of responsibility in appropriate, defined circumstances, ACCA does not encourage the use of standard disclaimer clauses in audit reports. Such clauses could have the effect of devaluing the report in the eyes of many and are not necessary in order to protect auditors' interests if the audit has been properly carried out.*

7. *In England and Wales, where a professional accountant acts as a paid trustee, or assists in drafting, preparing, or instructing a third party to draft a trust document that includes a clause that has the effect of limiting or excluding liability (known as a "trustee exemption clause"), the professional accountant has a duty to take reasonable steps to ensure that the person creating the trust is aware of the meaning and effect of the clause before the trust is created. Such practice is also recommended in other jurisdictions.*

## **Advice on limited information**

8. *Accountants may be called upon to give opinions and advice, including financial advice, in connection with many matters, for example investigations or management consultancy assignments, the preparation or audit of the accounts of sole traders, partnerships and charities, and in the field of taxation. While it is permissible for a professional accountant to give such advice either within or outside the scope of a letter of engagement, professional accountants are recommended to make clear to the beneficiary of that advice the extent of the responsibility they agree to undertake and whom that advice is intended for and restricted to, making particular reference to the information supplied to them as a basis for their work and to those areas (if any) to be excluded from their examination. In particular, if clients require "snap" answers to*

*complicated problems, it is recommended that professional accountants record such advice in writing (or alternatively to state orally and forthwith confirm in writing) that the problems are complicated, that they have been given a very limited time in which to study them, that further time is required in order to consider them in depth and that the opinion or advice tendered might well be revised if further time were available to them. It is also recommended that professional accountants state that the client is responsible for the accuracy of the information supplied to the accountant, and except in the case of a genuine emergency the client be warned against acting on the "snap" advice tendered before further investigation has been carried out.*

## **Avoiding liability to third parties**

9. *It is permissible for a professional accountant to take appropriate steps to reduce their exposure to the claims of third parties. By way of illustration, in England and Wales such steps might include:*
  - (a) *identifying the purpose for which the advice is given or document is prepared;*
  - (b) *identifying and limiting the audience of the advice or document, for example including the notice "CONFIDENTIAL. This report (statement) has been prepared for the private use of X (the client) only and on condition that it must not be disclosed to any other person without the written consent of Y (the accountant).";*
  - (c) *including a disclaimer, for example: "Whilst every care has been taken in the preparation of this document, it may contain errors for which we cannot be responsible" or "This report is prepared for the use of X (the client) only. No responsibility is assumed to any other person.";*
  - (d) *where a document is prepared in the first instance for discussion with or approval by the client or others, and is liable to be altered before it appears in its final form, over-stamping the document on each page: "Unrevised draft";*
  - (e) *where accounts are prepared on behalf of a client, identifying that the source of the information set out in the accounts is the client and not the accountant and that the client has checked the document. It is a sensible precaution in such a case for the accountant expressly to draw the attention of the client to the need to check the document before submitting it.*
10. *A professional accountant shall, however, be aware that a disclaimer may be inappropriate or ineffective. Disclaimers will be inappropriate in circumstances where their use will tend to impair the status of practising accountants by indicating a lack of confidence in their professional work. By way of illustration, under English law it would not, for example, be proper to endorse copies of accounts filed in accordance with sections 394 and 437 of the Companies Act 2006 with a disclaimer by the auditor of liability to persons other than shareholders.*



## **Inclusion of the accountant's name on a document issued by a client**

11. Professional accountants are recommended to endeavour to ensure that no statement or document issued by their client (other than unabridged accounts which have been reported on by them as auditors) will bear their name unless their prior consent has been obtained. It is often desirable for a suitable paragraph to be included in the engagement letter. If a professional accountant learns that a client proposes to cite his/her name, he/she shall inform the client that his/her permission must first be obtained and in appropriate cases he/she shall withhold his/her permission.

## **Specialist advice**

12. Professional accountants are reminded that, from time to time, circumstances may warrant (whether because of the complexity of an assignment or otherwise) that a professional accountant advise his/her client that he/she considers it desirable to take specialist advice. In certain circumstances it may be appropriate for a professional accountant either to consult another accountant or to instruct or to suggest to his/her client to instruct a member of another profession to advise.

## **Internal complaints-handling procedures**

13. In accordance with lead regulator recommendations, a professional accountant in the UK and Ireland shall implement adequate procedures to handle client complaints in respect of fee, service and contractual disputes. Professional accountants elsewhere are highly recommended to implement such procedures.
14. Many complaints can be resolved without recourse to litigation where adequate internal complaints procedures exist within firms. In this way, not only would the level of client care improve, but issues of poor service might be resolved without the need for investigation by ACCA. A guidance note to assist professional accountants, which includes suggested procedures, can be found on ACCA's website at <https://www.accaglobal.com/uk/en/member/regulation/factsheets.html>.
15. It is recommended that any complaints procedures adopted by a firm ensure:
- (a) the proper handling of complaints from clients relevant to its compliance with the regulatory system;
  - (b) that complaints are acknowledged promptly;
  - (c) where a complaint has been made orally, that the letter of acknowledgement states the professional accountant's understanding as to the nature of the complaint being made and invites the complainant to confirm in writing the accuracy of that statement;
  - (d) that complaints are investigated by a person of sufficient experience, seniority and competence who, where possible, was not directly involved in the particular act or omission giving rise to the complaint;
  - (e) that any appropriate remedial action on those complaints is promptly taken; and
  - (f) where the complaint is not promptly remedied, that the client is advised of any further avenue for complaint available to him/her under the regulatory system (e.g. taking the matter up with ACCA).

16. *Members in the UK are required to inform the client of the following, once the firm's internal complaints-handling procedures have been exhausted:*
- (a) that the practice has been unable to resolve the complaint;*
  - (b) that ACCA is competent to deal with the complaint, should the consumer wish to further the complaint;*
  - (c) ACCA's website address;*
  - (d) that the practice is not obliged to submit to ACCA's conciliation process should ACCA consider that the complaint is suitable for conciliation; and*
  - (e) whether the practice would be prepared to submit to ACCA's conciliation process should ACCA consider that the complaint is suitable for conciliation.*
17. *Professional accountants are recommended to include details of the firm's internal complaints-handling procedures in the letter of engagement.*
18. *Professional accountants are reminded that on written application by both the parties to the dispute, ACCA can arrange for an arbitrator to be appointed.*

## **Advisory Services**

19. *Professional accountants with queries regarding professional liability of accountants and auditors may call upon the Advisory Services Section within ACCA for advice.*
20. *Professional accountants are also referred to guidance ACCA has issued for professional accountants on liability for professional negligence. This can be viewed at <https://www.accaglobal.com/uk/en/member/regulation/factsheets.html>.*

## SECTION B10

# The incapacity or death of a practitioner

## General

1. *Practising certificates are granted to professional accountants on the condition that they have made arrangements for continuity in the management of their practice, in the event of their death or incapacity. Professional accountants are referred to the detailed provisions in [regulation 11](#) of the Global Practising Regulations 2003.*
2. *Principals in the same practice (partnership or corporation) may arrange continuity through their fellow partners, or directors, providing these persons are suitably qualified to carry out work which they will be called on to undertake in the role of continuity nominees.*
3. *When entering into an agreement with another firm (a sole practitioner, a partnership or a corporation) for the provision of continuity, a professional accountant shall try to find a compatible practice where procedures, fee structure and the work in general are of a similar kind. Practical considerations, such as geographic location, staff availability and skills, client characteristics, etc., shall be taken into consideration.*
4. *Continuity nominees shall be suitably qualified at the time they agree to be nominated as such and at all times thereafter. In the event that a nominee fails to retain his/her qualification he/she will no longer be a valid continuity nominee and the practitioner will have to find a replacement.*
5. *A professional accountant shall ensure that their executors and family will be aware, in the event of the professional accountant's death or incapacity, of the arrangements made for the management of the practice.*

## Insolvency practitioners: UK

6. *As a condition of obtaining a licence to practise insolvency under United Kingdom legislation, professional accountants are obliged to enter into a continuity of practice agreement with another firm or individual for the purpose of transferring their insolvency appointments in the event of their incapacity or death.*

## Content of continuity agreement

7. *A continuity agreement shall be evidenced in writing.*
8. *A continuity agreement shall include clauses within it which set out:*
  - (a) *the precise nature of the legal relationship between the principal and the continuity nominee;*
  - (b) *the circumstances which will cause the management arrangement under the continuity agreement to commence operating;*
  - (c) *a statement of the maximum duration of the management of the practice under the continuity agreement;*
  - (d) *provisions for the review of the arrangements should circumstances warrant an extension of time;*

- e) the continuity nominee's obligations;
  - (f) the continuity nominee's powers relating to such matters as the administration of the practice, engagement and dismissal of staff and operating bank accounts;
  - (g) the basis on which the continuity nominee will be remunerated;
  - (h) the letter to be sent to clients in the event of the principal's death or incapacity.
9. A professional accountant may include additional clauses in their continuity agreement which deal with matters other than those included in paragraph 8 above.
10. A professional accountant may include clauses in their continuity agreement which deal with the sale of the practice. (Parties to such transactions shall normally be independently advised.)
11. Professional accountants are strongly advised to seek legal advice when drawing up a continuity agreement.
12. Copies of model continuity agreements are available from ACCA at [http://www.accaglobal.com/content/dam/acca/global/PDF-members/2012/2012c/Continuity\\_practice.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-members/2012/2012c/Continuity_practice.pdf)

## Descriptions

13. The name of the continuity nominee who is managing the practice under the continuity agreement shall be disclosed on the letterhead of the incapacitated/deceased practitioner as soon as possible, e.g.

David J Smith

Chartered Certified Accountant (or Certified Accountant)

Manager: Henry R Jones FCCA

or

Manager: Davies and Jones

Chartered Certified Accountants

(or Certified Accountants).

## Records

14. Practitioners are recommended to maintain adequate records in relation to practice matters, and to inform the continuity nominee of the firm's practices and procedures. Such information will assist the continuity nominee to undertake his/her duties when called upon to act.

## Incapacity of a practitioner

15. A principal, in spite of his/her incapacity continues to be the owner of the practice and also will be responsible for the actions of the continuity nominee appointed to manage the practice during the period of his/her incapacity.

16. *Where a practitioner is incapacitated, it is important that professional indemnity insurers and other insurers are informed of the new circumstances; this includes notifying insurers of the appointment of a continuity nominee to manage the practice in accordance with the continuity agreement.*
17. *Where the incapacity of the principal is likely to be prolonged, clients shall be informed of the arrangements in place for the continuance of service to them.*

## **Death of a practitioner**

18. *It is recommended that all practitioners make a will and appoint executors who will be able to administer their estate. It may be advantageous if one of the executors is professionally qualified. Executors can act at once to protect a practice. By way of illustration, under English law, if practitioners die intestate, their administrators will have no authority to act until they have obtained a grant of administration. The resulting delay in obtaining a grant of administration may result in the late practitioner's affairs, and those of his/her clients, not being properly controlled and managed.*
19. *Whether the professional accountant dies intestate, or having made a will, certain matters shall be addressed without delay:*
  - (a) *the fact that personal representatives of the deceased have taken over conduct of the practice means that it cannot strictly be described as a firm of Chartered Certified Accountants; nevertheless, for a temporary period the old name and description of the practice may normally be retained for the purpose of realisation, provided the fact that the practice is under management is indicated;*
  - (b) *insurers shall be advised of the changed circumstances, especially those concerned with indemnity insurance;*
  - (c) *as in the case of incapacity, the continuity agreement shall note the scope of the continuity nominee's authority for administration of the practice including control of staff, operation of bank accounts, etc.*

## **Statutory audits**

20. *In some countries, an incapacitated professional accountant will retain his/her appointment as a statutory auditor and can be removed only in accordance with the appropriate statutory procedures.*
21. *There may be exceptions to paragraph 20: in the United Kingdom, for example, if an individual is appointed as auditor to a Friendly/Industrial and Provident Society, the individual will cease to be eligible for re-appointment if incapacitated.*
22. *Some kinds of incapacity are more permanent than others and considerations of practical common sense will indicate the course to be followed.*
23. *Where the incapacity of the practitioner is likely to be of considerable duration or affect normal audit procedures, the directors or other persons responsible for the appointment of the auditor shall be fully informed of the circumstances and the arrangements made for the continuation of the practice.*

24. *If the directors wish to appoint the continuity nominee as auditor, the continuity nominee may quite properly accept, emphasising that they do so on a temporary basis. Sometimes, however, the continuity nominee may subsequently find himself/herself in an embarrassing situation if the client then wishes to invite the continuity nominee to accept the appointment permanently. The continuity nominee may accept the appointment, but in that event ACCA would expect the continuity nominee to be ready to negotiate with the incapacitated professional accountant, or his/her agent, as to the financial terms on which the continuity nominee does so, otherwise the value of the practice would be diminished.*
25. *Where a practitioner dies during the course of an audit, it may leave the firm not under the control of qualified persons within the meaning of regulation 7 of [Annexes 1](#) and [2](#) to the Global Practising Regulations 2003. The firm would therefore be ineligible to retain its auditing certificate. In such circumstances, the client will need to appoint new auditors, but in the meantime the firm's continuity provider shall step in and fill the vacancy to complete the audit and sign the audit report. The deceased practitioner's firm would not be permitted to sign any audit reports nor take on any new audit clients.*

## **Ethical considerations**

26. *In the event that a professional accountant is called upon to act under a continuity agreement they shall not seek any personal gain from the arrangement apart from reasonable remuneration for the work they undertake.*
27. *A continuity nominee shall not accept clients from the practice they are assisting without the express agreement of the principal or the principal's representatives. This prohibition shall be applied from the date on which the continuity nominee commences to act under the continuity agreement, to two years after the arrangement is terminated. The exception to this is where the continuity nominee purchases the practice. The continuity nominee may be subjected to disciplinary action if he/she fails to comply with this rule.*
28. *The continuity nominee shall, whenever possible, interview clients and staff of the incapacitated professional accountant at the principal's office.*
29. *The continuity nominee may wish to acquire the practice from the incapacitated professional accountant or from his/her personal representatives and this is in no way unethical, and may be a very satisfactory solution. The continuity nominee shall negotiate with the personal representatives of a deceased professional accountant (who shall normally be independently advised), or in the case of incapacity with the professional accountant or his/her representatives. As noted at [paragraph 14](#), the continuity agreement may include clauses which deal with arrangements for the sale of the practice.*

## **ACCA approved employer**

30. *In the event of a principal or director of an ACCA approved employer dying, or being incapacitated, the remaining principals or directors (in the case of a sole practitioner his/her continuity nominee or personal representatives) shall contact ACCA to inform them of this fact.*

31. *It is important that the arrangements for the training and supervision of students and professional accountants arising as a result of the death or incapacity of a principal are reviewed by ACCA to establish whether or not the arrangements for students and professional accountants continue to be satisfactory.*

## **Advisory Services**

32. *Professional accountants with queries regarding the continuity of the practice in the event of incapacity or death of a practitioner may call upon the Advisory Services Section within ACCA for advice.*
33. *Professional accountants are also referred to guidance ACCA has issued for professional accountants on continuity of practice. This can be viewed at <https://www.accaglobal.com/uk/en/member/regulation/factsheets.html>.*

## **SECTION B11**

### ***Estates of deceased persons***

1. *The administration of the estates of deceased persons is a matter of law and of the terms of the wills or relevant intestacy rules. Professional accountants are reminded that they must comply with the requirements of the applicable law that governs the deceased person's estates and the administration of his/her affairs. Professional accountants are recommended to seek legal advice when acting as the personal representatives of clients.*
2. *It is perfectly acceptable for a professional accountant to be named as a personal representative (executor) in the will of a client. Similarly, it is perfectly acceptable for a professional accountant to be appointed as a personal representative (administrator) where an individual has died intestate. Professional accountants are, however, reminded that acting as such for directors or shareholders of a company and also acting for the company itself may appear to compromise their independence and it may be appropriate to make disclosure in the accounts and establish review procedures to safeguard their independence.*
3. *As with all appointments, a professional accountant shall carry out their work with a proper regard for the technical and professional standards expected of them. To this end, a professional accountant shall not undertake any work which they are not competent to perform, whether because of the lack of experience or the necessary technical or other skills to ensure that the work is properly completed.*



## **SECTION B12**

# **Corporate finance advice including take-overs**

## **Introduction**

1. *Corporate finance activities are wide-ranging in their nature.*
2. *In many cases, auditors will give corporate finance advice which is incidental to the audit relationship.*
3. *The role and nature of advice expected of professional accountants may change in character when the clients become involved in, or anticipate particular transactions, such as take-over bids or issues of securities.*
4. *It is at this point that problems of independence and conflicts of interest can arise.*
5. *The guidance which follows is designed to assist professional accountants who find themselves advising in these and related circumstances.*

## **The regulator for take-overs and mergers**

6. *Attention is drawn to the need to comply with any local regulations, for example, in the United Kingdom the City Code on Take-overs and Mergers and the Rules Governing Substantial Acquisition of Shares, which are expressly applied to professional advisers as well as to those engaged in the securities markets.*

## **Objectivity and integrity**

7. *Provided that a professional accountant maintains and can demonstrate objectivity and integrity throughout, both in regard to their client and to other interested parties, there can be no objection to their accepting an engagement which is designed primarily with a view to advancing their client's case.*
8. *The concept of impartiality has no application in these circumstances.*

## **Conflicts of interest**

9. *It may be in the best interests of client companies for financial advice to be provided by their auditors, and there is nothing improper in auditors supporting clients in this way.*
10. *There is, however, a variety of situations in which conflicts can arise.*
11. *It is not, on the face of it, improper for firms to continue to act as auditors to both parties in take-over situations, even if the take-overs are contested.*
12. *Firms may find themselves acting as auditors or advisers for two or more parties involved in take-overs subject to local regulations on take-overs and mergers. For a firm to cease to act for a client within the limited period of the take-over on the basis that a conflict might arise, could damage the client's interests.*
13. *Accordingly, in such circumstances, a firm may continue to act for more than one party as auditor, as reporting accountant, on any profit forecast, and in the provision of incidental advice consistent with these roles. However, a firm shall not act as lead advisers for any of the parties involved, or issue a critique of a client's accounts, and shall implement proper safeguards. Professional accountants are referred to [paragraph 28](#) below.*

14. *The attention of firms is also directed to regulations dealing with conflicts of interest that may apply to them. By way of illustration, in the UK this would include the possession of "material confidential information" in the United Kingdom City Code on Take-overs and Mergers. Professional accountants in doubt as to their position are advised to consult the regulator for take-overs and mergers.*
15. *Where a take-over is not subject to regulations, and there is no substantial public interests involved, a firm may, subject to the implementation of appropriate safeguards (see [paragraph 28](#) below), continue to advise both sides. However, the firm shall ensure that the interests of minority shareholders are protected, and shall consider the desirability of one company having wholly independent advisers.*
16. *A firm shall not underwrite or sponsor issues to the public of the shares or securities of clients which they audit, or on which they have reported or will report, or undertake to accept nomination as auditors of the company being sponsored. Financial involvement of this kind would endanger the independence of the firm in the audit and/or reporting function. Auditors may, however, assist clients in raising capital by approaching institutional investors.*
17. *It is not inappropriate for a professional accountant to conduct acquisition searches, which could identify other clients as targets, provided the searches are based solely on the information which is not confidential to those clients.*

## **Avoiding conflicts of interest**

18. *All reasonable steps shall be taken to ascertain whether conflicts of interest exist or are likely to arise in the future between firms and their clients, both in regard to new engagements and to the changing circumstances of existing clients, and including any implications arising from the possession of confidential information.*
19. *Relationships with clients and former clients need to be reviewed before accepting new appointments, and regularly thereafter.*
20. *Relationships which ended over two years ago are unlikely to give rise to a conflict.*
21. *Where it is clear that a material conflict of interest exists, a firm shall decline to act as financial adviser.*
22. *It would be neither reasonable nor necessary to discontinue acting in any capacity in anticipation of every potential conflict. It could in some instances give rise to harmful rumour or speculation for a firm to disengage from a situation before a bid had become public knowledge.*
23. *Where there appear to be conflicts of interest between clients, but after careful consideration, the firm considers that these conflicts of interest are not material and unlikely to prejudice seriously the interests of any of those clients, the firm may accept or continue the engagements, but not without first informing the clients concerned. The firm shall consider seeking independent advice in such a case.*
24. *A firm shall not act, or continue to act, for two or more clients if the disclosure called for in paragraph 23 could seriously prejudice the interests of clients.*
25. *Where conflicts of interest are likely to seriously prejudice the interests of clients, engagements shall not be accepted or continued, even at the informed request of the clients concerned.*

26. *Where a firm is required for any reason to disengage from existing clients, it shall do so as speedily as practicable, having regard to the interests of the clients.*

## **Safeguards**

27. *Where a firm acts or continues to act for two or more clients following disclosures in accordance with the previous paragraphs, all reasonable steps shall be taken to manage the conflicts which arise and thereby avoid adverse consequences.*
28. *These steps will include some or all of the following safeguards:*
- (a) the use of different partners and teams for different engagements;*
  - (b) all necessary steps to prevent the leakage of confidential information between different teams and sections within the firm;*
  - (c) regular review of the situation by a senior partner or compliance officer not personally involved with either client; and*
  - (d) advising the clients to seek additional independent advice.*
29. *Any decision on the part of sole practitioners shall take account of the fact that the safeguards at (a) to (c) of paragraph 28 will not be available to them. Similar considerations apply to small practices.*

## **Documents for public use**

30. *Where, in the course of corporate finance advice, a firm prepares information for a client, for example, a critique of the accounts of another company, it may be called upon to do so:*
- (a) in a document which is for the consumption of the client only;*
  - (b) in order to assist the client to produce a document which will go out solely under the client's name and authority, whether including quotations from the original document or not; or*
  - (c) as part of a document which is published under the name of the professional accountant.*
31. *Any statements or observations in a document prepared for a client must be such as, taken individually and as a whole, are justifiable on an objective examination of the available facts.*
32. *A firm is, in the absence of any indication to the contrary, entitled to assume that the published accounts of the company on which they are commenting have been properly prepared and are in accordance with all relevant International Financial Reporting Standards. Where scope for alternative accounting treatment exists and the accuracy of the comment or observation is dependent on an assumption as to the actual accounting treatment chosen, that assumption shall be stated, together with any other assumptions material to the commentary. Where a firm is not in possession of sufficient information to warrant a clear opinion this shall be declared in the document.*
33. *In the case of a document prepared solely for clients and their professional advisers, it shall be a condition of the engagement that the document must not be disclosed to any third party without the firm's express permission.*

34. *A firm shall take responsibility for anything published under its name and the published document shall make clear the client for whom it is acting. To prevent misleading or out-of-context quotations, it shall be a condition of the engagement that, if anything less than the full document is to be published, the form of the text and its content would have to be agreed with the firm.*
35. *Any document whether for private or public use shall be prepared in accordance with normal professional standards of integrity and objectivity and with a proper degree of care.*

## **Fees**

36. *Where a professional accountant undertakes an engagement for a fee which is contingent upon the successful outcome of a transaction such as a bid, offer, purchase, sale or raising finance, the professional accountant shall take particular care to ensure that the arrangements do not prejudice their independence and objectivity with regard to any other role which they may have, such as auditor or reporting accountant of either the bidder or the target.*

## SECTION B13

# Marketing professional services

1. *A professional accountant in public practice may inform the public of the services he/she is capable of providing by means of advertising or other forms of promotion subject to the general requirement that the medium shall not reflect adversely on the professional accountant, ACCA or the accountancy profession.*
2. *Advertisements and promotional material prepared or produced by a professional accountant shall not (either in content or presentation):*
  - (a) *bring ACCA into disrepute or bring discredit to the professional accountant, firm or the accountancy profession;*
  - (b) *discredit the services offered by others whether by claiming superiority for the professional accountant's own services or otherwise;*
  - (c) *be misleading, either directly or by implication;*
  - (d) *fall short of any local regulatory or legislative requirements, such as the requirements of the United Kingdom Advertising Standards Authority's Code of Advertising and Sales Promotion, notably as to legality, decency, clarity, honesty, and truthfulness.*
3. *An advertisement shall be clearly distinguishable as such.*

## Reference to fees in promotional material

4. *Where reference is made in promotional material to fees, the basis on which those fees are calculated, hourly or other charging rates, etc. shall be clearly stated.*
5. *The greatest care shall be taken to ensure that any reference to fees does not mislead the reader as to the precise range of services and time commitment that the reference is intended to cover.*
6. *A professional accountant in public practice may make comparisons in promotional material between the professional accountant's fees and the fees of other accounting practices, whether professional accountants or not, providing that any such comparison shall not give a misleading impression.*
7. *When making comparisons, a professional accountant shall ensure that he/she pays appropriate attention to relevant local codes or legislation, such as the United Kingdom Advertising Standards Authority's Code of Advertising and Sales Promotion and the EC Directive on Comparative Advertising (97/55/EC). The following conditions, which are extracted from the aforementioned sources but should be followed by all professional accountants as best practice, shall generally be met:*
  - (a) *it compares the services meeting the same needs or intended for the same purpose;*
  - (b) *it objectively compares one or more material, relevant, verifiable and representative features of those services, which may include fees;*
  - (c) *it does not create confusion in the market place between the advertiser and a competitor or between the advertiser's trade marks, trade names, other distinguishing marks, goods or services and those of a competitor;*

- (d) *it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor.*
- 8. *The danger of giving a misleading impression is particularly pronounced when constraints of space limit the amount of information which can be given.*
- 9. *A professional accountant may offer a free consultation at which levels of fees will be discussed.*

## **Promotional material and promotional activities**

- 10. *Promotional material may contain any factual statement, the truth of which the professional accountant in public practice is able to justify, but it shall not make unflattering references to, or unflattering comparisons with, the services of others.*
- 11. *Professional accountants in public practice are reminded that any promotional activity shall be carried out in accordance with any relevant legislation. For example, a professional accountant in public practice shall comply with legislation relating to the making of unsolicited telephone calls or other communication to a non-client with a view to obtaining professional work.*
- 12. *Any promotional activity undertaken by a professional accountant in public practice, or his/her agent, shall not amount to harassment.*

## **SECTION C**

# **PROFESSIONAL ACCOUNTANTS IN BUSINESS**

## SECTION C1

### **Disclosing confidential information**

1. *A professional accountant in business shall observe the principle of confidentiality. Confidentiality is the duty to keep private another person's information given or obtained in confidence. The duty of confidentiality is not only to keep information confidential, but also to take all reasonable steps to preserve confidentiality. A professional accountant in business shall not disclose confidential information acquired or received in the course of their work unless they have a right or obligation to do so or they have received informed consent from their employer to whom the duty of confidentiality is owed.*
2. *The possession of confidential information may give rise to specific threats to confidentiality in certain circumstances. For example, the non-disclosure of confidential information in a professional accountant's possession may threaten compliance with the fundamental principles when a professional accountant in business:*
  - (a) *is required by law to disclose information to the appropriate public authority or suspected infringements of the law that come to light, for example in connection with anti-money laundering or anti-terrorist legislation;*
  - (b) *is required to produce documents or other provision of evidence in the course of legal proceedings;*
  - (c) *is permitted by law to disclose and is authorised by the organisation in which they are engaged;*
  - (d) *believes that confidential information must be disclosed in the public interest, for example where the employing organisation has committed, or proposes to commit, a crime or fraudulent act; or*
  - (e) *has a professional duty or right to disclose, when not prohibited by law:*
    - (i) *to comply with technical standards and ethics requirements;*
    - (ii) *to protect the professional interests of a professional accountant in legal proceedings;*
    - (iii) *to comply with the quality review of a professional body such as ACCA; or*
    - (iv) *to respond to an inquiry or investigation by ACCA or a regulatory body.*



## SECTION C2

# Whistleblowing

1. *Where required by law to disclose confidential information, for example as a result of anti-money laundering or anti-terrorist legislation, or in connection with legal proceedings involving either the professional accountant or the professional accountant's employing organisation, a professional accountant in business shall always disclose that information in compliance with relevant legal requirements.*
2. *In some circumstances, a professional accountant in business may consider disclosing information outside the employing organisation, when not obligated to do so by law or regulation, because the professional accountant believes it would be in the public interest. When considering such disclosure, a professional accountant in business shall, where appropriate, follow the internal procedures of the employing organisation in an attempt to rectify the situation. If the matter cannot be resolved within the employing organisation, a professional accountant in business shall determine the following:*
  - (a) *legal constraints and obligations;*
  - (b) *whether members of the public are likely to be adversely affected;*
  - (c) *the gravity of the matter, for example the size of the amounts involved and the extent of likely financial damage;*
  - (d) *the possibility or likelihood of repetition;*
  - (e) *the reliability and quality of the information available; and*
  - (f) *the reasons for the employing organisation's unwillingness to disclose matters to the relevant authority.*
3. *In deciding whether to disclose confidential information, the professional accountant in business shall also consider the following points:*
  - (a) *when the employer gives authorisation to disclose information, whether or not the interests of all the parties, including third parties whose interests might be affected, could be harmed;*
  - (b) *whether or not all the relevant information is known and substantiated, to the extent this 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; in particular, a professional accountant in business shall be satisfied that the parties to whom the communication is addressed are appropriate recipients; and*
  - (d) *the legal or regulatory obligations and the possible implications of disclosure for the professional accountant in business.*