# ICAS Code of Ethics
(APPLICABLE FROM 1 NOVEMBER 2017)

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SECTION 1: APPROACH, SCOPE AND AUTHORITY

“The ICAS Code of Ethics is based on the Handbook of the Code of Ethics for Professional Accountants, 2016 Edition of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) in September 2016 and is used with permission of IFAC.


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This revised Code of Ethics applies from 1 November 2017 and replaces the previous version (applicable from 1 January 2014). Where guidance relates to engagements or projects commencing prior to that date, previous guidance may be applied up to completion of the engagement or project.

Introduction
Approach
Scope
Authority
International Ethics Standards Board for Accountants Code of Ethics
Auditor Independence
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Other Sources of Guidance

Introduction

1.1 One of the principal objects of the Royal Charter is to maintain a high standard of efficiency and professional conduct by members of the Institute. The Code of Ethics (“this Code”) applies to all members of the Institute, affiliates, students, employees of a member firm or an affiliate, and member firms where relevant. These are referred to in the remainder of this Code as professional accountants.

1.2 Professional accountants have a responsibility to take into consideration the public interest (considered in more detail in paragraph 100.1) and to maintain the reputation of the accountancy profession. Personal self-interest must not prevail over those duties. This Code helps professional accountants to meet these obligations by providing them with ethical guidance. Failure to follow this Code may lead to a professional accountant becoming liable to disciplinary action as outlined in Chapter XII of the Institute’s rules.

Approach

1.3 Guidance is given in the form of fundamental principles and illustrations of how they are to be applied in specific situations. Case studies illustrating the application of the fundamental principles can be found at: www.icas.com. (https://www.icas.com/ethics/ethics-and-the-power-of-one) The fundamental principles are drawn from the duties owed by professional accountants, whether in practice or not, and from the requirements of the Royal Charter. They are framed in broad and general terms and constitute basic requirements of professional behaviour. The illustrations provide guidance on what is expected of professional accountants in relation to particular situations that commonly arise either in practice or in business. The value of this principles-based approach is that it avoids excessive legalism by not having to anticipate every contingency, whilst at the same time being helpful in giving examples of problem situations. In some instances, prohibitions or mandatory actions arise from the analysis of threats: these are considered further in paragraph 100.12.
Scope

1.4 Professional accountants shall follow the guidance contained in the fundamental principles in all of their professional and business activities whether carried out with or without reward and in other circumstances where to fail to do so would bring discredit to the profession. A number of specific requirements, which are highlighted by use of the word “shall”, are also included in the Code. A professional accountant shall follow the requirements, including prohibitions or mandatory actions, where circumstances are the same as, or analogous to, those addressed by those requirements. Failure to follow such guidance may be justified in those rare circumstances where to follow a precise prohibition or mandated action would result in failure to adhere to the fundamental principles.

1.5 For convenience, the illustrations in this Code are grouped into parts applicable principally to professional accountants working in public practice, business and insolvency respectively, but professional accountants may find any of them of use in relevant circumstances.

1.6 Professional accountants shall be guided not merely by the terms but also by the spirit of this Code and the fact that particular conduct does not appear among a list of examples does not prevent it amounting to misconduct.

1.7 Professional accountants shall ensure that work for which they are responsible, which is undertaken by others on their behalf, is carried out in accordance with the requirements of this Code. Member firms are reminded that this Code applies to their employees, whether members or not and that they are responsible for applying this requirement.

1.8 Certain areas of work are reserved by statute to professional accountants who are in practice, whether or not with other persons, namely investment business, insolvency and audit. In these areas professional accountants may be subject to rules laid down by laws and regulation, breach of which can give rise to disciplinary proceedings against the professional accountant.

1.9 If the advice in this Code conflicts with laws and regulations, professional accountants are bound to follow the laws and regulations.

1.10 Professional accountants working overseas shall comply with this Code unless to do so would breach local laws and regulations.

Authority

1.11 In determining whether or not a complaint is proved, the investigation and disciplinary committees may have regard to any code of practice, ethical or technical, and to any regulations affecting professional accountants, laid down or approved by the Institute’s Council.

1.12 In the event of a complaint, the investigation and disciplinary committees shall be entitled to assess whether a reasonable and informed third party would conclude that compliance with the fundamental principles was compromised.

International Ethics Standards Board for Accountants Code of Ethics

1.13 Except as noted below, this Code has been derived from the International Ethics Standards Board for Accountants (IESBA) Code of Ethics issued in September 2016 by the International Federation of Accountants (IFAC). Accordingly, compliance with the remainder of this Code will ensure compliance with the principles of the IESBA Code. Paragraph numbering in the rest of this Code replicates that used in the IESBA Code of Ethics, except in respect of:

- Sections 221, 241, 370 and Part D which have no direct equivalent in the IESBA Code of Ethics;
Wording in italics in the other Sections, where additional discussion and/or requirements have been considered by Council to be useful or necessary. The fact that wording is or is not in italics does not indicate any difference in the degree of importance that shall be attached to it.

Deletion of the wording “Unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit team and the immediate family, and (b) the client”, in paragraphs 290.120 and 290.121; and the deletion of similar wording in paragraphs 291.115 and 291.116.

A direct link has been retained to paragraph numbering in the IESBA Code of Ethics. However, as a result of the additional discussion and requirements noted above, and deletion of material that is not applicable to the professional accountants of the Institute, the paragraph referencing in this Code is not necessarily consecutive.

Auditor Independence

1.14 Financial Reporting Council (FRC) ethical and engagement standards for audits of financial statements, now comprise the FRC Ethical Standard and International Standards on Auditing (ISAs) (UK), and apply to auditors carrying out:

- Statutory audits of companies in accordance with the Companies Act 2006 in the UK;
- Audits of financial statements of entities in accordance with other UK legislation e.g. building societies, credit unions, friendly societies, pension funds, charities and registered social landlords;
- Public sector financial statement audits in the UK, including those carried out either on behalf of the national audit agencies or under contract to those agencies. (The standards governing the conduct and reporting of the audit of financial statements are a matter for the national audit agencies to determine. However, the heads of the national audit agencies in the UK have chosen to adopt the ethical, engagement and quality control standards issued by the FRC for audits as the basis of their approach to the audit of financial statements);
- Other audits performed by audit firms registered with the UK members of the Consultative Committee of Accountancy Bodies (CCAB) unless the nature of the engagement requires the use of other recognised auditing standards, and the rules of the relevant CCAB member does not preclude the use of other recognised auditing standards; and
- Other audits where audit firms not registered with members of the CCAB elect, or are required by contract, to perform the work in accordance with UK auditing standards.

Therefore, when undertaking an audit which falls into any of the categories listed above, a professional accountant in public practice is required to comply with the FRC’s Ethical Standard which can be downloaded from the FRC website at http://www.frc.org.uk. When performing an audit engagement for which the FRC Ethical Standard is not applicable, a professional accountant in public practice shall comply with Section 290 of this Code unless to do so would breach local laws or regulations.

For audits in accordance with ISAs (UK), the independence requirements of the FRC Ethical Standard apply instead of the detailed requirements of Section 290 of the ICAS Code. Although a number of detailed provisions vary between the FRC Ethical Standard and Section 290, both sets of requirements apply a robust principles based approach to the fundamental requirement for independence. ICAS does not consider it in the public interest to require auditors to have to apply both sets of detailed requirements. Therefore in accordance with paragraph 8 of Statement of Membership Obligations (SMO) 4 (a statement of obligations for IFAC member bodies, to which ICAS subscribes), ICAS considers that auditors applying the FRC Ethical Standard will be considered to have applied the independence requirements of the ICAS Code.
A professional accountant undertaking an audit in Ireland is required to comply with the audit and ethical standards set by the Irish Auditing and Accounting Supervisory Authority (IAASA). www.iaasa.ie

Review and Other Assurance Engagements

1.15 As well as applying to audits undertaken in accordance with ISAs (UK) the FRC’s Ethical Standard also applies to all other public interest assurance engagements that are undertaken in compliance with engagement standards issued by the FRC. Therefore, any professional accountant undertaking such an engagement needs to comply with the FRC’s Ethical Standard. As at 30 June 2017 the FRC’s defined list of engagement standards for public interest assurance engagements comprised the following:

- Reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting – ‘SIRs’); (see below)
- Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (UK and Ireland) 2410; and
- Engagements to provide assurance on client assets to the Financial Conduct Authority (the CASS Standard).

Please note that the above list may be subject to change.

If a professional accountant is undertaking a review engagement other than that which is within the scope of the FRC’s public interest assurance engagements (as noted above) then they shall comply with Section 290 of this Code.

If a professional accountant in public practice is conducting an assurance engagement for a non-audit (or review) client, other than an FRC public interest assurance engagement (see above), they shall follow the ethical guidance on other assurance engagements contained in Section 291 of this Code. If the professional accountant is the auditor of the entity concerned the professional accountant is already required to comply with the requirements of the FRC’s Ethical Standard (see paragraph 1.14) or Section 290 of this Code where the FRC’s Ethical Standard is not applicable. In such situations, no additional compliance with Section 291 is required. Where the client is a review client, then as the professional accountant is required to comply with the requirements of Section 290 of this Code, no additional compliance with Section 291 is required.

Other Sources of Guidance

1.16 Professional accountants who are in doubt as to their ethical position may seek guidance from the following sources, available to all members of the Institute:

- Members with an ethical query (other than audit ethics) should contact the Institute at ethicalenquiries@icas.com or by telephone on 0131 347 0271.
- Members with a query relating to audit ethics should contact the Accounting and Auditing department by email: accountingandauditing@icas.com.
- The Institute’s specific money laundering helpline for specific instances, telephone +44 (0)131 347 0271.
- The Institute’s general advice money laundering helpline, telephone +44 (0) 131 347 0254. This helpline provides guidance on general issues concerning the regulations e.g. the extent of identification procedures required.

1.17 Seeking guidance from any of the above services provided by the Institute does not discharge a professional accountant’s duty to report misconduct, including their own misconduct.
A professional accountant ought to consider taking legal advice to resolve issues arising from the application of laws and regulations to particular situations relating to confidentiality, disclosure, privilege, self-incrimination and other areas. See also Sections 225 and 360, as applicable, “Responding to Non-Compliance with Laws and Regulations”.

As noted in paragraph 1.3 above, a series of case studies featuring ethical dilemmas can be found at www.icas.com. (https://www.icas.com/ethics/ethics-and-the-power-of-one).
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SECTION 100: INTRODUCTION AND FUNDAMENTAL PRINCIPLES

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

Acting in the public interest involves having regard to the legitimate interests of clients, government, financial institutions, employers, employees, investors, the business and financial community and others who rely upon the objectivity and integrity of the accounting profession to support the propriety and orderly functioning of commerce. This reliance imposes a public interest responsibility on the profession. Professional accountants shall take into consideration the public interest and reasonable and informed public perception in deciding whether to accept or continue with an engagement or appointment, bearing in mind that the level of the public interest will be greater in larger entities and entities which are in the public eye.

Therefore, a professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant shall comply with all other parts of this Code.

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

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

A professional accountant shall use professional judgement in applying this conceptual framework.

100.3 Parts B, C and D describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to professional accountants in public practice. Part C applies to professional accountants in business. Professional accountants in public practice may also find Part C relevant to their particular circumstances. Part D applies to professional accountants undertaking insolvency work.

100.4 The use of the word “shall” in this Code imposes a requirement on the professional accountant or firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code. (Refer to paragraph 1.4 of Section 1)

Fundamental Principles

100.5 Moral courage

In order to ensure compliance with the fundamental principles, an underpinning qualitative characteristic required of the professional accountant is the ‘courage’ to act morally. ‘Courage’ for the professional accountant is the need to act in accordance with the fundamental principles, especially in situations where there is a risk of suffering adverse personal consequences.
There is a need for the professional accountant to confront ethical dilemmas with courage. When facing an ethical dilemma, the professional accountant needs to have the courage to acknowledge the dilemma, to make a reasoned judgement as to the ethical action required to resolve the dilemma, and then to act accordingly.

A professional accountant shall comply with the following fundamental principles:

(a) Integrity
To be straightforward and honest in all professional and business relationships.

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

(c) Professional Competence and Due Care
To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and 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 and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

(e) Professional Behaviour
To comply with relevant laws and regulations and avoid any conduct that discredits the profession.

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

Conceptual Framework Approach

100.6 The circumstances in which professional accountants operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.
100.7 When a professional accountant identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the professional accountant shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. In making that determination, the professional accountant shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.

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

100.9 A professional accountant shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a professional accountant may encounter situations in which threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the professional accountant shall decline or discontinue the specific professional activity or service involved or, when necessary, resign from the engagement (in the case of a professional accountant in public practice) or the employing organisation (in the case of a professional accountant in business).

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

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

**Threats and Safeguards**

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

(a) **Self-interest threat** – the threat that a financial or other interest will inappropriately influence the professional accountant’s judgement or behaviour;

(b) **Self-review threat** – the threat that a professional accountant will not appropriately evaluate the results of a previous judgement made, or activity or service performed by the professional accountant, or by another individual within the professional accountant’s firm or employing organisation, on which the accountant will rely when forming a judgement as part of performing a current activity or providing a current service;

(c) **Advocacy threat** – the threat that a professional accountant will promote a client’s or employer’s position to the point that the professional accountant’s objectivity is compromised;
(d) Familiarity threat — the threat that due to a long or close relationship with a client or employer, 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 professional accountant.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances. Part D deals with professional accountants undertaking insolvency work.

Professional accountants shall note that each of the categories of threat discussed above may arise in relation to the professional accountant’s own person or in relation to connected persons such as members of their family or partners or persons who are close to the professional accountants for some other reason, for instance by reason of a past or present association, obligation or indebtedness.

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

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

100.14 Safeguards created by the profession, legislation or regulation include:

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

100.15 Parts B and C of this Code discuss safeguards in the work environment for professional accountants in public practice and professional accountants in business, respectively.

100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organisation, include:

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

100.16A Where a professional accountant decides to accept or continue an engagement, appointment, task or employment in a situation where a significant threat to the fundamental principles has been identified, the professional accountant is expected to be able to demonstrate that the availability and effectiveness of safeguards has been considered and it was reasonable to conclude that those safeguards will adequately preserve their compliance with the fundamental principles. A professional accountant is expected to document the reasoning and other evidence which supports the evaluation of threats and safeguards to such an extent that it enables a reasonable and informed third party to conclude that the decisions are acceptable.
Conflicts of Interest

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

- The 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 interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict.

100.18 Parts B and C of this Code discuss conflicts of interest for professional accountants in public practice and professional accountants in business, respectively.

Ethical Conflict Resolution

100.19 A professional accountant may be required to resolve a conflict in complying with the fundamental principles.

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

(a) Relevant facts;
(b) Relevant parties;
(c) Ethical issues involved;
(d) Fundamental principles related to the matter in question;
(e) Established internal procedures; and
(f) Alternative courses of action.

Having considered the relevant factors, a professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the professional accountant may wish to consult with other appropriate persons within the firm or employing organisation for help in obtaining resolution.

*It will generally be preferable for the ethical conflict to be resolved within the employing organisation before consulting individuals outside the employing organisation.*

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

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

100.23 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the Institute or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the Institute on an anonymous basis or with a legal advisor under the protection of legal privilege.

*Further information on sources of guidance is available in Section 1.*
100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, unless prohibited by law, refuse to remain associated with the matter creating the conflict. The professional accountant shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organisation.

More detailed guidance on the ethical conflict resolution process is available in the Appendix to Part A.

Communicating with Those Charged with Governance

100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the professional accountant or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the professional accountant or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the professional accountant or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

100.26 In some cases, 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 with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The professional accountant or firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the professional accountant or firm would otherwise communicate in their governance capacity.
SECTION 110: INTEGRITY

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

It follows that a professional accountant’s advice and work must be uncorrupted by self-interest and not be influenced by the interests of other parties.

110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

(a) Contains a materially false or misleading statement;
(b) Contains statements or information furnished recklessly; or
(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

In relation to accounts prepared under ‘The Small Companies (Micro-Entities’ Accounts) Regulations 2013 or equivalent for other types of entities, accounts which satisfy the ‘true and fair’ view requirement of this Statutory Instrument cannot be held to be misleading.

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

110.3 A professional accountant will be deemed not to be in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.
SECTION 120: OBJECTIVITY

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

Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other.

120.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant shall not perform a professional activity or service if a circumstance or relationship biases or unduly influences the accountant’s professional judgement with respect to that service.
SECTION 130: PROFESSIONAL COMPETENCE AND DUE CARE

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

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

(b) To act diligently in accordance with applicable technical and professional standards when performing professional activities or providing professional services.

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

(a) Attainment of professional competence; and

(b) Maintenance of professional competence.

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. Further guidance on continuing professional development is available at icas.com.

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

130.5 A professional accountant shall take reasonable steps to ensure that those working under the professional accountant’s authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a professional accountant shall make clients, employers or other users of the accountant’s professional services or activities aware of the limitations inherent in the services or activities.
The principle of confidentiality is not only to keep information confidential, but also to take all reasonable steps to preserve confidentiality. Whether information is confidential or not will depend on its nature. A safe and proper approach for professional accountants to adopt is to assume that all unpublished information about a client’s or employer’s affairs, however gained, is confidential. Some clients or employers may regard the mere fact of their relationship with a professional accountant as being confidential.

The principle of confidentiality imposes an obligation on all professional accountants to refrain from:

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

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

Professional accountants in public practice must not disclose confidential information to a client even though the information is relevant to an engagement for, or would be beneficial to, that client.

Where professional accountants in public practice have confidential information which affects an assurance report, or other report which requires a professional accountant to state their opinion, the professional accountant cannot provide an opinion which they already know, from whatever source, to be untrue. If the professional accountant in public practice is to continue the engagement, the professional accountant must resolve this disparity. In order to do so, the professional accountant is entitled to apply normal procedures and to make such enquiries in order to enable the professional accountant to obtain that same information but from another source. Under no circumstances, however, shall there be any disclosure of confidential information outside the firm.

A professional accountant shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member.

A professional accountant shall maintain confidentiality of information disclosed by a prospective client or employer. This requirement extends not only to clients, past and present, but also to third parties from or about whom information has been received in confidence. The principle of confidentiality clearly does not prevent an employee from using the skills acquired while working with a former employer in undertaking a new role with a different organisation. Professional accountants shall neither use nor appear to use special knowledge which could only have been acquired with access to confidential information. It is a matter of judgement as to the dividing line which separates experience gained, from special knowledge acquired.

A professional accountant shall maintain confidentiality of information within the firm or employing organisation.

A professional accountant shall take reasonable steps to ensure that staff under the professional accountant’s control and persons from whom advice and assistance is obtained respect the professional accountant’s duty of confidentiality.

Member firms shall ensure that all who work on their behalf are trained in, and understand:

- The importance of confidentiality;
- The importance of identifying any conflicts of interest and confidentiality issues between clients, or between themselves or the firm and a client, in relation to a current or prospective engagement; and;
The procedures the firm has in place for the recognition and consideration of possible conflicts of interest and confidentiality issues.

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

140.6A Detailed guidance on conflicts of interest, including situations where such conflicts may result in threats (or perceived threats) to preservation of confidentiality, are included in Section 220.

Disclosure of confidential information

140.7 As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant’s client or employing organisation to the professional accountant. Nevertheless, the following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a) Disclosure is permitted by law and is authorized by the client or the employer;
(b) Disclosure is required by law, for example:
   (i) Production of documents or other provision of evidence in the course of legal proceedings; or
   (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

Where required by law or regulations 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 themselves or their employing organisation, professional accountants shall always disclose that information in compliance with relevant legal requirements. Professional accountants shall take care when communicating relevant facts to others relating to known or suspected money laundering or terrorist activities. Under The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (“the Money Laundering Regulations 2017”), the Terrorism Act 2000, the Terrorism Act 2006, and The Proceeds of Crime Act 2002, it is a criminal offence to “tip off” a money launderer or terrorist. For further discussion, please refer to the money laundering legislation and guidance available from the ICAS website: www.icas.com

(c) There is a professional duty or right to disclose, when not prohibited by law:
   (i) To comply with a Monitoring visit of the Institute or professional body;
   (ii) To respond to an inquiry or investigation by the Institute 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 ethical requirements.

A professional accountant may disclose confidential information to third parties, when not obliged to do so by law or regulations, if the disclosure can be justified in the public interest and is not contrary to laws and regulations. Before making such disclosure, professional accountants ought to obtain legal advice as to their duties and obligations in the context of their professional and business relationships, and possible protection under the Public Interest Disclosure Act 1998. See also Section 225 or 360, as applicable, “Responding to Non-Compliance with Laws and Regulations.”
A professional accountant may disclose confidential information to third parties, when not obliged to do so by law or regulations, if the disclosure can be justified in the public interest and is not contrary to laws and regulations. Before making such disclosure, professional accountants ought to obtain legal advice as to their duties and obligations in the context of their professional and business relationships, and possible protection under the Public Interest Disclosure Act 1998.

Confidentiality and privilege is a complex area. For example, information which is confidential may not be privileged and, therefore, may be admissible in court proceedings. Privilege is a difficult area, quite distinct from confidentiality, and it is recommended that further advice be taken if a professional accountant is in doubt as to the action to be taken.

Guidance on money laundering reporting requirements in privileged circumstances can be obtained from the ICAS website: www.icas.com.

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

- Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement shall be used in determining the type of disclosure to be made, if any.
- The type of communication that is expected and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.
- Whether or not the information is privileged, either in the sense of common law “Privilege” (“Legal Professional Privilege” in England), or, in a narrower sense, according to the interpretation of “privileged circumstances” under Section 330 of the Proceeds of Crime Act 2002; and
- The legal and regulatory obligations and the possible implications of disclosure for the professional accountant.

140.9 The paragraphs above deal with professional accountants’ treatment of confidential information belonging to a client or employer. There is another context in which professional accountants will be given or may obtain information which they must handle sensitively. Professional accountants may be approached in confidence with information about alleged illegal or improper actions on the part of employees or management of the business for which the informant works or with which the informant has some other relationship.

Professional accountants may receive that information because of being trusted by the informant, or may receive it in connection with work their firm is carrying out for the informant’s employer.

Whatever the circumstances in which the information comes to professional accountants, the professional accountants shall:

- Advise informants to pass the information to their employer through the medium of the employer’s own internal procedures (if they exist);
- Use their best endeavours to protect the identity of the informant, taking care not to mislead the informant as to the extent to which this can be done, and shall only cause the employer to be made aware of the informant’s identity where this cannot be avoided; and
- Take care in determining the quality of the information and how best to use it, if at all.

See also Section 225 or 360, as applicable, “Responding to Non-Compliance with Laws and Regulations”.

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SECTION 150: PROFESSIONAL BEHAVIOUR

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

Professional accountants shall conduct themselves with courtesy and consideration towards all with whom they come into contact when performing their work.

150.2 In marketing and promoting themselves and their work, professional accountants shall not bring the profession into disrepute. Professional accountants shall be honest and truthful and not:

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

(b) Make disparaging references or unsubstantiated comparisons to the work of others.
Appendix to Part A – Further guidance on Ethical Conflict Resolution

Further guidance on the matters discussed in paragraph 100.20

(a) **Relevant facts**

Seek to establish the known facts of the situation and any limitations. It may not be possible to obtain all relevant facts but the professional accountant may be able to obtain more background information to address the limitations by:

- Referring to the organisation’s policy, procedures, code of conduct and previous history;
- Discussing the matter with parties internal and external to the organisation. For example, trusted managers and colleagues.

(b) **Relevant parties**

Consider affected parties ranging from individuals, organisations to society. The parties to be considered include, but are not limited to, employees, employers, shareholders, consumers/clients, investors, government and the community at large.

(c) **Ethical issues involved**

Consider the professional, organisational and personal ethical issues of the matter.

(d) **Fundamental principles related to the matter in question.**

Refer to the guidance contained in this Code in order to establish which fundamental principles are affected by the situation.

(e) **Established internal procedures**

Refer to the employing organisation’s internal procedures and also consider which parties shall be involved in the ethical conflict resolution process, in what role and at what stage. For example, the professional accountant needs to consider when it would be appropriate to refer to external sources for help, such as the Institute (see Section 1 for sources of guidance).

Professional accountants may find it useful to discuss the ethical conflict issue within the organisation with the following parties:

- Immediate superior;
- The next level of management;
- A corporate governance body, for example, the audit committee;
- Other departments in the organisation which include, but are not limited to, legal, audit and human resources departments.

(f) **Alternative courses of action**

In considering courses of action, the professional accountant ought to consider the following:

- The organisation’s policies, procedures and guidelines;
- Applicable laws and regulations;
- Universal values and principles adopted by society;
- Long term and short term consequences;
- Symbolic consequences;
- Private and public consequences.
When evaluating the suggested course of action, a professional accountant is expected to test the adequacy of the suggested course of action by considering the following:

- Have all consequences associated with the course of action been discussed and evaluated?
- Is there any reason why the suggested course of action will not stand the test of time?
- Would a similar course of action be undertaken in a similar situation?
- Would the suggested course of action stand scrutiny from peers, family and friends?
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SECTION 200: INTRODUCTION

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

200.2 A professional accountant in public practice shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Fundamental Principles

200.2A Moral courage

In order to ensure compliance with the fundamental principles, an underpinning qualitative characteristic required of the professional accountant is the ‘courage’ to act morally. ‘Courage’ for the professional accountant is the need to act in accordance with the fundamental principles, especially in situations where there is a risk of suffering adverse personal consequences.

There is a need for the professional accountant to confront ethical dilemmas with courage. When facing an ethical dilemma, the professional accountant needs to have the courage to acknowledge the dilemma, to make a reasoned judgement as to the ethical action required to resolve the dilemma, and then to act accordingly.

A professional accountant shall comply with the following fundamental principles:

(a) Integrity
To be straightforward and honest in all professional and business relationships.

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

(c) Professional Competence and Due Care
To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and 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 and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

(e) Professional Behaviour
To comply with relevant laws and regulations and avoid any conduct that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110 - 150.
Threats and Safeguards

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

Threats fall into one or more of the following categories:

(a) Self-interest;
(b) Self-review;
(c) Advocacy;
(d) Familiarity; and
(e) Intimidation.

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

200.3A The examples of threats in paragraphs 200.4 to 200.8 below are given as means of illustration and are not intended to be exhaustive.

200.4 Examples of circumstances that create self-interest threats for a professional accountant in public practice include:

- A member of the assurance team having a direct financial interest in the assurance client.
- A firm having undue dependence on total fees from a client.
- A member of the assurance team having a significant close business relationship with an assurance client.
- A firm being concerned about the possibility of losing a significant client.
- A member of the audit team entering into employment negotiations with the audit client.
- A firm entering into a contingent fee arrangement relating to an assurance engagement.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant’s firm.

200.5 Examples of circumstances that create self-review threats for a professional accountant in public practice include:

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

- The firm promoting shares in an audit client.
- A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties.

Examples of circumstances that create familiarity threats for a professional accountant in public practice include:

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

Examples of circumstances that create intimidation threats for a professional accountant in public practice include:

- A firm being threatened with dismissal from a client engagement.
- An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client’s accounting treatment for a particular transaction.
- A firm being threatened with litigation by the client.
- A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- A professional accountant feeling pressured to agree with the judgement of a client employee because the employee has more expertise on the matter in question.
- A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client’s inappropriate accounting treatment.

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

(a) Safeguards created by the profession, legislation or regulation; and
(b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.14 of Part A of this Code.
200.9A The examples of safeguards in paragraphs 200.12 to 200.15 below are given as means of illustration and are not intended to be exhaustive.

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

200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement-specific safeguards.

200.12 Examples of firm-wide safeguards in the work environment include:

- Leadership of the firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm’s policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm’s quality control system.
- Advising partners and professional staff of assurance clients and related entities from which independence is required.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.
Examples of engagement-specific safeguards in the work environment include:

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

Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards that the client has implemented. However, it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.

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

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

Professional accountants who are in doubt as to their ethical position may seek guidance from the following sources, available to all members of the Institute:

- Members with an ethical query (other than audit ethics) should contact the Institute at ethicalenquiries@icas.com or by telephone on 0131 347 0271.
- Members with a query relating to audit ethics should contact the Accounting and Auditing department by email: accountingauditing@icas.com
SECTION 210: PROFESSIONAL APPOINTMENT

Client Acceptance and Continuance

210.0 Clients have the right to choose their accountants, whether as auditor or professional advisers, and to change their accountants if they so desire. Professional accountants have the right to choose for whom they act.

210.1 Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, issues associated with the client (its owners, management or activities) that, if known, could threaten compliance with the fundamental principles. These include, for example, client involvement in illegal activities (such as money laundering), dishonesty, questionable financial reporting practices or other unethical behaviour.

Further information relating to money laundering legislation and guidance is included in paragraph 210.12.

210.2 A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level.

Examples of such safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
- Securing the client’s commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

210.3 Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship.

210.4 Potential threats to compliance with the fundamental principles may have been created after acceptance that would have caused the professional accountant to decline the engagement had that information been available earlier. A professional accountant in public practice shall, therefore, periodically review whether to continue with a recurring client engagement. For example, a threat to compliance with the fundamental principles may be created by a client’s unethical behaviour such as improper earnings management or balance sheet valuations. If a professional accountant in public practice identifies a threat to compliance with the fundamental principles, the professional accountant shall evaluate the significance of the threats and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Where it is not possible to reduce the threat to an acceptable level, the professional accountant in public practice shall consider terminating the client relationship where termination is not prohibited by law or regulation.

Engagement Acceptance

210.5 The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.
A professional accountant in public practice shall evaluate the significance of threats and apply safeguards, when necessary, to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

- Acquiring an appropriate understanding of the nature of the client’s business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed;
- Acquiring knowledge of relevant industries or subject matters;
- Possessing or obtaining experience with relevant regulatory or reporting requirements;
- Assigning sufficient staff with the necessary competencies;
- Using experts where necessary;
- Agreeing on a realistic time frame for the performance of the engagement; or
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

When a professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

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

Upon being asked to accept an appointment, professional accountants shall undertake the same procedures with all accountants. Professional accountants shall also consider whether these procedures ought to be applied when replacing other professional advisers.

A professional accountant in public practice shall evaluate the significance of any threats. Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing or predecessor accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- Asking the predecessor accountant to provide known information on any facts or circumstances that, in the predecessor accountant’s opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the predecessor accountant that may influence the decision to accept the appointment; or
- Obtaining necessary information from other sources.

There are unlikely to be any circumstances where, having been asked to accept an appointment, that the professional accountant in public practice shall not at least seek to contact the existing accountant. The appropriate procedures are considered further in the appendix to this Section.
210.10 When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

_Counsel has advised that with regards to UK law, an existing accountant who communicates to a prospective accountant matters damaging to the client or to any individuals concerned with the client’s business will have a strong measure of protection were any action for defamation to be brought against the existing accountant in that the communication will be protected by qualified privilege. This means that the existing accountant shall not be liable to pay damages for defamatory statements even if they turn out to be untrue, provided that they are made without malice. There is little likelihood of an existing accountant being held to have acted maliciously provided that:_

- Only what is sincerely believed to be true is stated; and
- Reckless imputations are not made against a client or connected individuals for which there can be no reason to believe they are true.

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

_In circumstances where the professional accountant is asked to undertake work which is relevant to the work of the existing accountant, the professional accountant shall notify the existing accountant of the proposed work, unless the client provides acceptable reasons why the existing accountant cannot be informed. The professional accountant ought to be aware of the risks of undertaking such work without the advantage of communicating with the other accountants. Further guidance on providing second opinions is available in Section 230 of this Code._

210.12 An existing or predecessor accountant is bound by confidentiality. Whether that professional 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 on:

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

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

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

_However, care must be taken when communicating all relevant facts to a professional accountant in situations where the existing accountant knows or suspects that their client is involved in money laundering or a terrorist activity. Under the Money Laundering Regulations 2017, the Terrorism Act 2000, the Terrorism Act 2006 and the Proceeds of Crime Act 2002, it is a criminal offence to “tip off” a money launderer or terrorist. Accordingly:_

- The prospective accountant shall not specifically enquire whether the existing accountant has reported suspicions of money laundering or terrorism. Such questions place the existing accountant in a difficult position and are likely not to be answered. In addition, the prospective accountant shall not ask the existing accountant whether client identification or “knowing your client” procedures have been carried out under anti-money laundering legislation. The prospective accountant has responsibility for obtaining information for client identification and “knowing your client” and this cannot be delegated to the existing accountant.
Disclosure of money laundering or terrorist suspicion reporting by the existing accountant to the potential successor shall be avoided because this information may be discussed with the client or former client.

For further discussion, please refer to the money laundering legislation and guidance on the ICAS website: www.icas.com.

210.13 A professional accountant in public practice will generally need to obtain the client’s permission, preferably in writing, to initiate discussion with an existing or predecessor accountant. Once that permission is obtained, the existing or predecessor accountant shall comply with relevant laws and regulations governing such requests. Where the existing or predecessor accountant provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing or predecessor accountant, the proposed accountant shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.

If the client fails or refuses to grant the existing accountant permission to discuss the client’s affairs with the proposed successor, the existing accountant shall report that fact to the prospective accountant who shall consider carefully the reason for such failure or refusal when determining whether or not to accept nomination/appointment.

210.14 In the case of an audit of financial statements, a professional accountant shall request the predecessor accountant to provide known information regarding any facts or other information that, in the predecessor accountant’s opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraph 225.31:

(a) If the client consents to the predecessor accountant disclosing any such facts or other information, the predecessor accountant shall provide the information honestly and unambiguously; and

(b) If the client fails or refuses to grant the predecessor accountant permission to discuss the client’s affairs with the proposed successor accountant, the predecessor accountant shall disclose this fact to the proposed successor accountant, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.

210.15 Guidance on appropriate procedures to be adopted by professional accountants relating to changes in professional appointments is included as an appendix to this Section.

Transfer of records

210.16 An existing accountant shall deal promptly with any reasonable request for the transfer of records and may have the right of particular lien if there are unpaid fees (see Section 240 of this Code). The courts have held that no lien can exist over books or documents of a registered company which, either by statute or by articles of association of the company, have to be available for public inspection. It may be necessary for professional accountants to obtain legal advice prior to the exercise of a lien.

If the existing accountant has fees outstanding from a client they are entitled to mention this to the potential successor. However, if this is as a result of genuine reservations by the client this may not be a reason to withhold co-operation with a successor.

A Helpsheet on “Exercising a right of lien” can be obtained from https://www.icas.com/regulation/regulatory-guidance.
210.17 The prospective accountant often asks the existing accountant for information as to the client’s affairs. If the client is unable to provide the information and lack thereof might prejudice the client’s interests, such information shall be promptly given. In such circumstances, no charge shall normally be made unless there is good reason to the contrary. An example of such a reason would be that a significant amount of work is involved. Where a charge is made, the arrangements shall comply with Section 240 of this Code.

**Audit regulations – Change in Auditor**


Appendix to Section 210 – Changes in Professional Appointments Procedures

Prospective accountants

1 In the majority of cases, the appropriate procedures for any professional accountant who is invited to act in succession to another, whether the changeover is at the insistence of the client or of the existing accountant, is to:

- Explain to the prospective client that there is a professional duty to communicate with the existing accountant; and
- Request the client (i) to confirm the proposed change in accountant to the existing accountant and (ii) to authorise the existing accountant to co-operate with the prospective accountant; and
- Write to the existing accountant regarding the prospective involvement with the client and request disclosure of any issue or circumstance which might be relevant to the successor’s decision to accept or decline the appointment (making oral enquiry if no written reply is forthcoming).

2 When these procedural steps have been taken, the prospective accountant shall consider, in light of the information received from the existing accountant, or any other factors, including conclusions reached following discussion with the client, whether:

- To accept the engagement, or
- Accept it only after having addressed any factors arising from the information received from the existing accountant (this may include imposing conditions on acceptance), or
- Decline it.

3 The prospective accountant shall ordinarily treat in confidence any information provided by the existing accountant, unless it is needed to be disclosed to perform the role required (such as making investigations into matters which need the perspective of the client’s officers or senior employees).

4 In circumstances where the enquiries referred to above are not answered, the prospective accountant shall write to the existing accountant by recorded delivery service stating an intention to accept the engagement in the absence of a reply within a specific and reasonable period. The prospective accountant is entitled to assume that the existing accountant’s silence implies there was no adverse comment to be made, although this does not obviate the requirement in 210.8 to consider all appropriate circumstances.

5 A professional accountant who is nominated as a joint auditor shall communicate with all existing auditors and be guided by similar principles to those set out in relation to nomination as an auditor. Where it is proposed that a joint audit appointment becomes a sole appointment, the surviving auditor shall communicate formally with the other joint auditor as though for a new appointment.

6 A professional accountant invited to accept nomination on the death of a sole practitioner shall endeavour to obtain such information as may be needed from the latter’s alternate (where appropriate), the administrators of the estate, or other source.

Existing accountants

7 The appropriate procedure for any professional accountant who receives any communication in terms of the above paragraphs, whether or not the professional accountant is still in office, is to:

- Answer promptly any communication from the potential successor about the client’s affairs; and
- Confirm whether there are any matters about those affairs which the prospective accountant ought to know, explaining them meaningfully, or confirm there are no such matters.
If the existing accountant has made one or more suspicious activity reports relating to money laundering or terrorism, the existing accountant shall not disclose that fact to the prospective accountant, or make other disclosures that could amount to tipping off. However, the existing accountant's legal and professional obligations remain. In order to meet these obligations, the existing accountant can undertake one or more of the following actions:

- Contacting the relevant investigating authority, for example, the National Crime Agency (NCA), to ascertain if appropriate wording can be agreed in a communication;
- Include a factual reference to the irregularities;
- Consider seeking legal advice.

Guidance on money laundering reporting requirements in privileged circumstances is available from the ICAS website: [www.icas.com](http://www.icas.com).

The above actions are also relevant when the existing accountant is preparing a statement of circumstances in accordance with Section 519 of the Companies Act 2006, or other similar statutory provisions, of matters connected with ceasing to hold office which, the auditor believes, shall be brought to the notice of the professional accountants, shareholders or creditors of the client or under other statutes to relevant regulatory bodies.

It is best practice for the prospective accountant and the existing accountant to record in writing such discussions as are referred to in the paragraphs above.

Where the professional accountant decides to accept nomination / appointment having been given notice of any matters which are the subject of contention between the existing accountant and the client, the professional accountant shall be prepared, if requested to do so, to demonstrate to the Investigation Committee that proper consideration has been given to those matters.

Further information

Professional accountants’ attention is drawn to additional guidance as follows:

- Auditing Standards ([www.frc.org.uk](http://www.frc.org.uk)):
  - ISA (UK) 240 (Revised June 2016), ‘The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements’
  - ISA (UK) 250A (Revised June 2016), ‘Consideration of Laws and Regulations in an Audit of Financial Statements’
  - ISA (UK) 250B (Revised June 2016), ‘The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector’
  - ISA (UK) 510 (Revised June 2016), 'Initial Audit Engagements - Opening Balances’
- Practice Note 12 (Revised), ‘Money Laundering – Guidance for auditors on UK legislation’ ([www.frc.org.uk](http://www.frc.org.uk))
- Guidance on money laundering reporting requirements in privileged circumstances which can be obtained from: [www.icas.com](http://www.icas.com).
- ISQC (UK) 1 – ‘Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements’ ([www.frc.org.uk](http://www.frc.org.uk)):
SECTION 220: CONFLICTS OF INTEREST

220.1 A professional accountant in public practice may be faced with a conflict of interest when performing a professional service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The 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 the professional accountant with respect to a particular matter and the interests of the client for whom the professional accountant provides a professional service related to that matter are in conflict.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

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

Subject to the specific provisions, there is, however, nothing improper in a professional accountant in public practice having two clients whose interests are in conflict.

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

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

220.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in public practice shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.
The professional accountants or their firms shall be able to satisfy themselves and the client that any conflict can be managed with available safeguards. Attention is also drawn to the ethical conflict resolution process in Part A.

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

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

220.6 Before accepting a new client relationship, engagement, or business relationship, a professional accountant in public practice shall take reasonable steps to identify circumstances that might create a conflict of interest, including identification of:

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

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

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

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

220.9 If a conflict of interest is identified, the professional accountant in public practice shall evaluate:

- The significance of relevant interests or relationships; and
- The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service and the matter on which the parties’ interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.
Where a conflict of interest arises, the preservation of confidentiality, and the perception thereof will be of paramount importance. Therefore, firms shall deploy safeguards, which generally will take the form of information barriers. Professional accountants shall note that it has been suggested by the courts that in some circumstances information barriers must be constructed as part of the organisational structure of the firm to be effective, rather than on an ad hoc basis.

The professional accountant in public practice shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Examples of safeguards include:

- Implementing mechanisms to prevent 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. This could include:
  - Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality. *Ensuring that there is, and continues to be, no overlap between the teams servicing the relevant clients and that each has separate internal reporting lines.*
  - Creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm. *This involves physically separating, and restricting access to, departments providing different professional services, or creating such divisions within departments if necessary, so that confidential information about one client is not accessible by anyone providing services to another client where their interests conflict.*
  - Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information. *This involves setting strict and carefully defined procedures for dealing with any apparent need to disseminate information beyond a barrier and for maintaining proper records where this occurs.*
- Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements. *The professional accountant shall ensure that the adequacy and effectiveness of the barriers are closely and independently monitored and that appropriate disciplinary sanctions are applied for breaches of them. The overall arrangements shall regularly be reviewed by a designated senior partner.*
- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgements and conclusions are appropriate.
- Consulting with third parties, such as a professional body, legal counsel or another professional accountant.
- *If client service issues render it impracticable to put in place such safeguards or suitable alternatives, it is important that relevant parties who have conflicts of interest which may result in threats to preservation of confidentiality, are made aware of and agree to the professional accountant continuing to act for them.*

In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in public practice performing the professional services. Disclosure and consent may take different forms, for example:
• General disclosure to clients of circumstances where the professional accountant, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the professional accountant’s standard terms and conditions for the engagement.

• Specific disclosure to affected clients of the circumstances of the particular conflict, including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly.

• In certain circumstances, consent may be implied by the client’s conduct where the 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.

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

*Professional accountants’ attention is drawn to Section 240 ‘Fees and Other Types of Remuneration’ and Section 241 ‘Agencies and Referrals’ which provide additional guidance on the ethical and legal considerations relating to these areas, including fiduciary relationships and accounting for commission and other benefits.*

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

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

220.14 In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:

• Performing a transaction-related service for a client in connection with a hostile takeover of another client of the firm.

• Performing a forensic investigation for a client in connection with a suspected fraudulent act where the firm has confidential information obtained through having performed a professional service for another client who might be involved in the fraud.

The firm shall not accept or continue an engagement under such circumstances unless the following conditions are met:

• The firm does not act in an advocacy role for one client where this requires the firm to assume an adversarial position against the other client with respect to the same matter;

• Specific mechanisms are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and

• The firm is satisfied that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant in public practice at the time, 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 service would produce a disproportionate adverse outcome for the clients or other relevant third parties.
The professional accountant shall document the nature of the circumstances, including the role that the professional accountant is to undertake, the specific mechanisms in place to prevent disclosure of information between the engagement teams serving the two clients and the rationale for the conclusion that it is appropriate to accept the engagement.

*Professional accountants’ attention is drawn to the FRC Ethical Standard; Section 290, ‘Independence – Audit and Review Engagements’, Section 291 ‘Independence – Other Assurance Engagements’ Part D of this Code, ‘Insolvency Practitioners’, and to Section 221, ‘Corporate Finance Advice’, for guidance on issues arising from certain reporting assignments, insolvency appointments and corporate finance activities.*
SECTION 221: CORPORATE FINANCE ADVICE

Introduction

221.0 The nature of corporate finance activities is so wide ranging that all the threats to objectivity and conflicts of interest identified respectively in Section 200 and Section 220 can arise when professional accountants provide corporate finance advice.

Categories of Corporate Finance Activity

221.1 Categories of activity covered by this Section are as follows:

(a) general corporate finance advice;
(b) acting as adviser in relation to takeovers and mergers;
(c) underwriting and marketing or placing securities on behalf of a client; and
(d) acting as sponsor, nominated adviser or corporate adviser under the Listing Rules, the AIM Rules or the NEX Exchange Rules respectively.

221.2 Professional accountants shall note that the guidance given in relation to general corporate finance advice is applicable to all categories of activity.

General Principles applicable to all Professional Accountants

Statutory and Other Regulatory Requirements

221.3 Professional accountants must be aware of and comply with current legislative and regulatory measures and professional guidance governing corporate finance assignments. As a guide a list of legislative and regulatory measures current at 30 June 2017 is given in appendix 1 to this Section but professional accountants shall ensure that they are aware of the most up to date legislative and regulatory requirements.

221.4 Professional accountants are required to comply with the City Code on Takeovers and Mergers (“the City Code”) (see appendix 2 to this Section) in respect of all relevant takeover transactions involving companies governed by the City Code and shall treat the general principles of the City Code as best practice guidance in respect of other takeover transactions.

221.5 A professional accountant proposing to provide corporate finance advice to a client or his employer shall at the outset draw attention to the legislative and regulatory responsibilities which will apply to the client or his employer. The professional accountant shall make clear to the client or his employer that, where necessary, legal advice shall be taken. The professional accountant shall also draw attention to his own responsibilities under professional ethical guidance, and where applicable, ethical standards issued by the Financial Reporting Council.

Acquisition Searches

221.6 It may be appropriate for a professional accountant to conduct an acquisition search which could identify another client or his employer as a target provided the search is based solely on information which is not confidential to that client.

Interests of Shareholders and Owners

221.7 Professional accountants shall remain aware when giving advice that they shall have regard to the interests of all shareholders and owners unless they are specifically acting for a single or defined group thereof. This is particularly so when advising on a proposal which is stated to be agreed by directors and/or majority shareholders or owners.

Preparation of Documents

221.8 Any document shall be prepared in accordance with normal professional standards of integrity and objectivity and with a proper degree of care. All statements or observations therein must be capable, taken individually or as a whole, of being justified on an objective examination of the available facts.
In order to differentiate the roles and responsibilities of the various advisers, professional accountants shall ensure that these roles and responsibilities are clearly described in all public documents and circulars and that each adviser is named.

Professional accountants intending to comment on published audited accounts shall act in accordance with paragraphs 221.20 to 221.22 below.

Overseas Transactions

This Section has been drafted with regard to the situation in the United Kingdom and the Republic of Ireland. Professional accountants shall apply the spirit of the guidance, subject to local legislation and regulation, to overseas transactions of a similar nature.

General Corporate Finance Advice applicable to Professional Accountants in Public Practice

The nature of corporate finance activities is so wide ranging that all the threats to the fundamental principles identified in Section 100 and Section 200, can arise when professional accountants in public practice provide corporate finance advice to both assurance and non-assurance clients: the self-interest threat, the self-review threat, the advocacy threat, the familiarity threat and the intimidation threat.

When advising a non-assurance client there can be no objection to a professional accountant in public practice accepting an engagement which is designed primarily with a view to advancing that client's case, though the professional accountant in public practice shall be aware that the self-interest threat could arise. Where a non-assurance client has received advice over a period of time on a series of related or unrelated transactions it is likely that, additionally, the familiarity threat may exist. But where a professional accountant in public practice advises an assurance client which is subject to a takeover bid or where a professional accountant in public practice acts as sponsor, nominated adviser or corporate adviser to an assurance client involved in the issue of securities, the self-interest threat will become more acute and the advocacy threat will arise.

Some corporate finance activities such as marketing or underwriting of securities contain so strong an element of advocacy as to be incompatible with the objectivity required for the reporting roles of an auditor or reporting accountant. Even where the activities of an auditor or reporting accountant are restricted to ensuring their clients' compliance with the Listing Rules the AIM Rules or the NEX Exchange Rules, it is likely that a self-review threat could arise.

It may be in the best interests of a company for corporate finance advice to be provided by its auditor and there is nothing improper in the professional accountant in public practice supporting an assurance client in this way provided that the auditor does not breach the requirements of the FRC's Ethical Standard.

A professional accountant in public practice's objectivity may be seriously threatened if their role involves undertaking the management responsibilities of an assurance client. Co-ordination tasks, such as initiating and organising meetings, issuing timetables and reporting progress, are unlikely to threaten reporting objectivity. When involved in negotiations on behalf of an assurance client, the professional accountant in public practice shall ensure that he does not assume the role of taking decisions for a client which would prejudice reporting objectivity. Accordingly, the professional accountant in public practice shall ensure that the client takes full responsibility for the final decisions arising from any such negotiations.

Conflict of Interest

Professional accountants in public practice shall be aware of the danger of a conflict of interest arising. All reasonable steps shall be taken to ascertain whether a conflict of interest exists or is likely to arise in the future between a professional accountant in public practice and his clients, both with regard to new clients and to the changing circumstances of existing clients, and including any implications arising from the possession of confidential information.
221.16 The attention of professional accountants in public practice is directed to Section 220, ‘Conflicts of Interest’ and to the safeguards indicated in paragraphs 220.10 and 220.11 of that Section. Where there appears to be a conflict of interest between clients but after careful consideration the professional accountant in public practice believes that either the conflict is not material or is unlikely seriously to prejudice the interests of any of those clients and that its safeguards are sufficient, the professional accountant in public practice may accept or continue the engagement. Unless client confidentiality considerations dictate otherwise it would be advisable, if appropriate, to seek the clients’ consent. Considerations that lead to a conclusion to accept or continue the engagement shall be explicitly recorded.

221.17 Where a professional accountant in public practice acts or continues to act for two or more clients having obtained consent, if appropriate, in accordance with the previous paragraphs, safeguards will need to be implemented to manage any conflict which arises. The safeguards may include:

(a) the use of different partners and teams for different clients, each having separate internal reporting lines;

(b) all necessary steps being taken 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, where it is appropriate.

Any decision on the part of a sole practitioner shall take account of the fact that the safeguards at (a) to (c) of the above paragraph will not be available to him. Similar considerations apply to small firms where the number of partners is insufficient to spread the work as indicated above.

221.18 Where a conflict of interest is so fundamental that it cannot be managed effectively by the implementation of appropriate safeguards and is likely seriously to prejudice the interests of a client, the engagement shall not be accepted or continued even if all relevant clients consent to the engagement.

221.19 Where a professional accountant in public practice is required for any reason to disengage from an existing client, the professional accountant in public practice shall do so as speedily as practicable having regard to the interests of the client.

Documents for Client and Public Use

221.20 In the case of a document prepared solely for the client and its professional advisers, it shall be a condition of the engagement that the document shall not be disclosed to any third party without the firm’s prior written consent.

221.21 A professional accountant in public practice is, in the absence of any indication to the contrary, entitled to assume that a company’s published financial information that has been reported on by a professional accountant in public practice has been prepared properly and in accordance with all relevant Accounting Standards. If a professional accountant in public practice is commenting in a public document on such financial information and 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 must be stated, together with any other assumptions material to the commentary. Where the professional accountant in public practice is not in possession of sufficient information to warrant a clear opinion this shall be declared in the document.

221.22 A professional accountant in public practice must take responsibility for anything published under his name, provided he consented to such publication, and the published document shall make clear the client for whom the professional accountant in public practice 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 text and its context shall be expressly agreed with the professional accountant in public practice.
Takeovers and Mergers

City Code Transactions

221.23 Professional accountants in public practice are reminded that, in doubt as to the propriety of any aspect of a City Code transaction with which they are involved, they shall consult the Panel on Takeovers and Mergers ("the Takeover Panel"). (See appendix 2 of this Section).

221.24 Where a professional accountant in public practice finds itself acting as auditor or reporting accountant for two or more parties involved in a transaction subject to the City Code, a perceived conflict of interest may arise. In such circumstances (subject to paragraph 221.26 below) a professional accountant in public practice may act for more than one party, including both offeror and offeree companies as auditor, as reporting accountants, and in the provision of incidental advice consistent with these roles but must implement adequate safeguards (see paragraph 221.17 above).

Lead Advisers in City Code Transactions

221.25 For the purposes of this Section, a "lead adviser" is the professional accountant in public practice primarily responsible for advising on, organising and presenting an offer or the response to an offer. This definition would include an "independent financial adviser" required under Rule 3 of the City Code.

221.26 In no circumstances shall a professional accountant in public practice be a lead adviser to more than one party involved in a transaction subject to the City Code. Where a professional accountant in public practice finds itself acting in an auditor or reporting accountant role for any party involved in a transaction subject to the City Code, the professional accountant in public practice shall not act as lead adviser for any party involved, save in the circumstances set out below in paragraphs 221.27 – 221.29.

221.27 A professional accountant in public practice who is auditor to a target company may be requested to act as lead adviser to a bidder on an offer subject to the City Code. Where the bid is hostile, it is likely that the professional accountant in public practice’s objectivity will be perceived to be prejudiced by its possession of material confidential information on the target and it will not therefore be able to advise on the offer. However, if the bid is agreed, the professional accountant in public practice may be able to act or continue to act as lead adviser to the bidder with the agreement of the target and subject to the prior approval of the Takeover Panel. The professional accountant in public practice shall obtain confirmation from its clients that their interests would not be prejudiced if the professional accountant in public practice were to act or continue to act in both capacities.

221.28 Where a professional accountant in public practice is acting as lead adviser to a company which is involved in a bid subject to the City Code, conflicts of interest for the professional accountant in public practice may arise due to an existing relationship with a second or subsequent bidder. Providing that the relationship with the second or subsequent bidder is confined to that of auditor or reporting accountant, and subject to the prior approval of the Takeover Panel, the professional accountant in public practice may continue to act as lead adviser, providing that it is satisfied that the implementation of safeguards (see paragraph 221.27 above) provides the necessary level of protection to each of the clients involved.

221.29 Where a professional accountant in public practice is requested to act as lead adviser to a target company in relation to a bid which is subject to the City Code from a company which is an existing assurance client, they may act as lead adviser to the target company only with the prior approval of the Takeover Panel.

The ethical guidance for professional accountants in public practice seeking to act for more than one party in a takeover transaction subject to the City Code is summarised in appendix 3 to this Section. Appendix 3 has been prepared only as a useful reference and is not intended to form part of this Section.
Transactions not subject to the City Code

221.30 Where a takeover is not subject to the City Code, and there is no substantial public interest involved, a professional accountant in public practice may, subject to the implementation of appropriate safeguards (see paragraphs 221.16 and 221.17 above), provide financial advice to both sides or to competing bidders. However, the professional accountant in public practice shall not act as lead adviser to both the target and a bidder in respect of such a transaction. The professional accountant in public practice shall be alive to the possibility of conflicts of interest arising in relation to minority interests and shall ensure that any such conflicts are addressed. Where appropriate, the advisory client and minority interests shall be advised as to the desirability of the minority interests appointing a wholly independent adviser.

Underwriting and Marketing of Shares

221.31 A professional accountant in public practice who is an auditor or reporting accountant shall not deal in, underwrite or promote shares for their client (also refer to the FRC's Ethical Standard (http://www.frc.org.uk)). Involvement of this kind would give rise to an advocacy threat, self-review threat and self-interest threat such that the professional accountant in public practice’s objectivity and independence in the auditor and/or reporting accountant function would be threatened.

221.32 It may be appropriate:

(a) for an auditor or reporting accountant otherwise to assist a client in raising capital; or

(b) for an auditor or reporting accountant otherwise to provide independent advice to a client, or its professional advisers, in connection with the issue or sale of shares or securities to the public; or

(c) for an auditor or reporting accountant otherwise to provide advice as sponsor, as an AIM nominated adviser or as a NEX Exchange corporate adviser to a company as set out below.

In these situations the professional accountant in public practice shall adopt steps similar to those described in paragraphs 220.10 and 220.11 of Section 220 and, additionally, set up procedures to review and identify any potential conflicts of interest which could compromise the professional accountant in public practice’s objectivity.

Sponsors, Nominated Advisers and Corporate Advisers

221.33 The professional accountant in public practice’s attention is drawn to:

(a) the UK Listing Authority’s Listing Rules when a firm accepts the responsibilities of a sponsor;

(b) the London Stock Exchange’s Alternative Investment Market (‘AIM’) Rules and, AIM Rules for Nominated Advisers (which include the Eligibility Criteria for Nominated Advisers. AIM's requirement is that for AIM companies to maintain their trading facility they shall have a nominated adviser at all times. In this context professional accountants in public practice shall have in place procedures to enable them to identify whether any conflicts exist or are likely to arise in the future before acting as a nominated adviser. Professional accountants in public practice shall note the policy of the London Stock Exchange that it will not normally allow a nominated adviser to be the reporting accountant to the issuer unless appropriate safeguards are in place as set out in paragraph 221.17 above. Furthermore, professional accountants in public practice shall note that the London Stock Exchange does not permit a nominated adviser to act for any other party to a transaction or takeover other than its AIM client company. In cases of doubt professional accountants in public practice shall consult the London Stock Exchange.
the NEX Exchange Rules and in particular the NEX Exchange Corporate Advisers Handbook when acting as a Corporate Adviser defined by the NEX Exchange Rules. NEX Exchange’s requirement is that for NEX Exchange companies to maintain their trading facility they shall have a corporate adviser at all times. In this context professional accountants in public practice shall have in place procedures to enable them to identify whether any conflicts exist or are likely to arise in the future before acting as a corporate adviser. Professional accountants in public practice shall note that NEX Exchange does not permit a corporate adviser to act for any other party to a transaction or takeover other than its NEX Exchange client company. In cases of doubt, professional accountants in public practice shall consult NEX Exchange.

221.34 Considerable care needs to be taken if a professional accountant in public practice is also to act as sponsor, nominated adviser or corporate adviser to an assurance client. A threat to the objectivity of the auditor or reporting accountant can arise as the duties of a sponsor, nominated adviser or corporate adviser are different from those of an auditor or reporting accountant and are owed to a different party. Although it is quite possible that no conflict will arise between the two roles, professional accountants in public practice need to recognise the possibility of conflicts arising, particularly if the role of sponsor, nominated adviser or corporate adviser is to include any advocacy of the directors’ views or if the transaction is to involve any issue of securities. To comply with the requirements of paragraph 221.31 above, where there is an issue of securities associated with such a transaction, a separate broker shall be appointed to take responsibility for any underwriting or marketing of the company’s shares.
Appendix 1 to Section 221 – Corporate Finance Advice

Information on Statutory and Other Regulatory and Professional Requirements

For the assistance of professional accountants a list of the relevant UK and Republic of Ireland legislative and regulatory measures and professional guidance is set out below. This reflects the position as at 30 June 2017. Professional accountants shall be aware that this list is not necessarily exhaustive and may be subject to variation in the future and when undertaking corporate finance assignments professional accountants shall ensure they are aware of the current status of the list.

UK

1. The Financial Services and Markets Act 2000, the Companies Act 2006, the Companies Act 1985 (those parts which are still applicable), and, where applicable, the requirements of the Financial Conduct Authority’s Handbook (http://www.fca.org.uk) or the Institute’s Designated Professional Body Handbook (https://www.icas.com/regulation/designated-professional-body).

2. The City Code on Takeovers and Mergers (the “City Code”) (http://www.thetakeoverpanel.org.uk/the-code/download-code).


7. The FRC’s Ethical Standard http://www.frc.org.uk

Republic of Ireland


Appendix 2 to Section 221 – Corporate Finance Advice

Compliance with the Takeover Rules

1 A professional accountant in public practice who provides takeover services for clients is required to comply with the City Code on Takeovers and Mergers: ('the City Code'), and with all rulings made and guidance issued under it by the Panel on Takeovers and Mergers ('the Takeover Panel').

2 Accordingly a professional accountant in public practice proposing to provide takeover services to a client shall at the outset:

(a) explain that these responsibilities will apply; and

(b) include in the terms of the engagement recognition of the professional accountant in public practice's obligation to comply with the City Code including any steps which the professional accountant in public practice may be obliged to take in performing those responsibilities. A specimen clause for the engagement letter is set out in paragraph 3 below.

Specimen Clause for Engagement Letters

3 The Client agrees and acknowledges that where the services provided by the professional accountant in public practice relate to a transaction within the scope of the City Code, the Client and the professional accountant in public practice will comply with the provisions of the City Code and will observe the terms of the guidance published by the Institutes of Chartered Accountants relevant to such services or transactions. In particular, the Client acknowledges that:

(a) if the Client or its advisers or agents fail to comply with the City Code then the professional accountant in public practice may withdraw from acting for the Client; and

(b) the professional accountant in public practice is obliged to supply to the Takeover Panel any information, books, documents or other records concerning the services or transaction which the Takeover Panel may require.

Scope of Takeover Services

4 'Takeover services' means any professional services provided by a professional accountant in public practice to a client in connection with a transaction to which the City Code applies.

5 The kinds of activities most commonly relevant for this purpose include:

(a) acting as financial adviser to one of the parties (for example, as ‘Rule 3 adviser’ to the offeree company);

(b) reporting on profit forecasts and/or valuations for the purposes of takeover documents;

(c) acting as a reporting accountant where the City Code applies;

(d) conducting acquisition searches for clients, and introducing clients to other parties with a view to effecting transactions; and

(e) advising in relation to acquisitions and disposals of securities of companies which are subject to the City Code.

6 Whilst the City Code does not define precisely the range of activities and transactions within its scope, part 3 of the Introduction to the City Code describes the companies and transactions which are subject to the City Code. In practice, those engaged in providing takeover services rarely experience difficulty in determining whether the City Code is or may be relevant to the activities proposed to be undertaken for any particular client. In cases of any doubt the Takeover Panel shall be consulted.

Special Responsibilities

7 A professional accountant in public practice who has provided or is providing takeover services to a client shall:
supply to the Takeover Panel any information, books, documents or other records concerning the relevant transaction or arrangement which the Takeover Panel may properly require and which are in the possession or under the control of the professional accountant in public practice; and

(b) otherwise render all such assistance as the professional accountant in public practice is reasonably able to give to the Takeover Panel, provided that in each case the relevant information, books, documents or other records were acquired by the professional accountant in public practice in the course of providing the relevant takeover services.

Except with the consent of the Takeover Panel, a professional accountant in public practice shall not provide or continue to provide any takeover services to any person if the Takeover Panel has stated that it considers that such a person is not likely to comply with the standards of conduct for the time being expected in the United Kingdom concerning the practices of those involved in takeovers, mergers or substantial acquisitions of shares and the Takeover Panel has not subsequently indicated a change in this view. A person to whom this paragraph applies will normally have been named in a statement published by the Takeover Panel, inter alia, for the purposes of Rule 4.3.1 of the Financial Conduct Authority's Handbook on Market Conduct.

(See https://www.handbook.fca.org.uk/handbook/MAR/4/?view=chapter)

If professional accountants in public practice have included in the engagement letter agreed with the client a provision as outlined in paragraph 3 above, they will be able to discharge their responsibilities under paragraph 7 and/or 8 above, without any breach of confidentiality or duty to the client. While professional accountants in public practice shall include such a provision, it is recognised that, on occasion, compliance with such responsibilities may still involve a breach of confidentiality to a third party or a breach of some other duty owed to the client. In such circumstances, this appendix is not applicable.

The Financial Services and Markets Act 2000

The provision of corporate finance services may require authorisation by the Financial Conduct Authority or a licence under the Designated Professional Body arrangements. However, this guidance applies to all professional accountants in public practice whether authorised/licensed or not.
APPENDIX 3 TO SECTION 221 – CORPORATE FINANCE ADVICE

Guidance for firms seeking to act for more than one party in a takeover subject to the City Code

This table is intended for illustrative purposes only and shall be read in conjunction with Section 221, Corporate Finance Advice.

<table>
<thead>
<tr>
<th>Bid Situation</th>
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<th>Bidder</th>
<th>Subsequent Bidder</th>
<th>Comments</th>
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In all of the above cases where professional accountants in public practice may be permitted to act for more than one party, they must consider the potential threats and put in place the appropriate safeguards as set out in paragraph 221.17. Furthermore, where stated, permission for the professional accountant in public practice to act for more than one party shall be obtained from the Takeover Panel.

Key

Adv Professional accountant in public practice acts as lead adviser (see paragraph 221.25)
Ass Professional accountant in public practice acts as auditor or reporting accountant.

As regards the application of this guidance to non-audit assurance engagements, the professional accountant in public practice’s attention is drawn to the explanatory note contained in the Definitions.

Notes

1) This matrix does not address a reverse takeover situation, where the offeror is required by the City Code to appoint advisers.
2) The matrix does not cover the takeover of private companies, except those which are subject to the City Code. Private companies are subject to the general requirements of this Code of Ethics.
SECTION 225: RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Purpose

225.1 A professional accountant in public practice may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. The purpose of this section is to set out the professional accountant’s responsibilities when encountering such non-compliance or suspected non-compliance, and guide the professional accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

225.2 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.

225.3 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section, for example, anti-money laundering legislation. When encountering such non-compliance or suspected non-compliance, the professional accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client, for example, pursuant to anti-money laundering legislation.

225.4 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 fundamental principles of integrity and professional behaviour;

(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the commission of the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Scope

225.5 This section sets out the approach to be taken by a professional accountant who encounters or is made aware of non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client’s financial statements; 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 may be fundamental to the operating aspects of the client’s business, to its ability to continue its business, or to avoid material penalties.

225.6 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.

225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may 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.

225.8 A professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters unless other laws or regulations require it. For example, a professional accountant in public practice in the UK needs to comply with Anti-Money Laundering legislation which contains no de minimis threshold for reporting.

225.9 This section does not address:
(a) Personal misconduct unrelated to the business activities of the client; and
(b) Unless required by other laws or regulations, non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. 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 professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Client’s Management and Those Charged with Governance

225.10 It is the responsibility of the client’s management, with the oversight of those charged with governance, to ensure that the client’s business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

Responsibilities of Professional Accountants in Public Practice

225.11 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the professional accountant takes to comply with this section shall be taken on a timely basis, having regard to the professional accountant’s understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

The professional accountant in public practice is reminded especially of the guidance in paragraph 225.3 above in relation to over-riding laws and regulations.
Audits of Financial Statements

Obtaining an Understanding of the Matter

225.12 If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, whether in the course of performing the engagement or through information provided by other parties, the professional accountant shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

225.13 The professional accountant is expected to apply knowledge, professional judgement and expertise, but is not expected to have a level of knowledge of laws and regulations that is 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. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

225.14 Unless prohibited by laws and regulations, if the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

225.15 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.

225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgement. 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.

225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the professional accountant shall discuss the matter with those charged with governance. The professional accountant may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.

Addressing the Matter

225.18 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.

225.19 The professional accountant shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. If not, the professional accountant may suggest appropriate sources of information or recommend that they obtain legal advice.
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. In this regard, some laws and regulations may stipulate a period within which reports are to be made; 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.

Communication with Respect to Groups

A professional accountant may:

(a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or

(b) Be engaged to perform an audit of a component’s financial statements for purposes other than the group audit, for example, a statutory audit.

Where the professional accountant becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the professional accountant shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation. This 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 it should be addressed in accordance with the provisions in this section.

Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may 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.

If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate inquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

Determining Whether Further Action Is Needed

The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.
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.

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.

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 matter.
- 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.

Examples of circumstances that may 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 professional accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The professional 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.

In determining the need for, and nature and extent of, further action, the professional accountant shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the professional accountant has acted appropriately in the public interest.

Further action by the professional accountant may 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.
Where the professional accountant determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and withdrawal may be the only available course of action.

Where the professional accountant has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the professional accountant shall, on request by the proposed successor accountant, provide all such facts and other information concerning the identified or suspected non-compliance that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the audit appointment. The predecessor accountant shall do so despite paragraph 210.14, unless prohibited by law or regulation. If the proposed successor accountant is unable to communicate with the predecessor accountant, the proposed successor accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through inquiries of third parties or background investigations of management or those charged with governance.

As consideration of the matter may involve complex analysis and judgements, the professional accountant may consider consulting internally, obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

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.

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 may be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant may 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 could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- Products that are harmful to public health or safety would likely be sold by the entity.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

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, 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.

225.35 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, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant’s intentions before disclosing the matter.

225.36 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional 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 considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgement and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

Documentation

225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant shall, in addition to complying with the documentation requirements under applicable auditing standards, document:

• How management and, where applicable, those charged with governance have responded to the matter.
• The courses of action the professional accountant considered, the judgements made and the decisions that were taken, having regard to the reasonable and informed third party perspective.
• How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.25.

225.38 International Standards on Auditing (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 judgements 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.

The professional accountant is encouraged to consider whether there is a need for any such documentation to be filed separately.

Professional Services Other Than Audits of Financial Statements

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

225.39 If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may be about to occur.
The professional accountant in public practice is reminded especially of the guidance in paragraph 225.3 above in relation to over-riding laws and regulations.

225.40 The professional accountant is expected to apply knowledge, professional judgement and expertise, but 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. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

225.41 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, if the professional accountant has access to them and where appropriate, those charged with governance.

225.42 Such discussion serves to clarify the professional accountant’s understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.

225.43 The appropriate level of management with whom to discuss the matter is a question of professional judgement. 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**

225.44 If the professional accountant is performing a non-audit service for an audit client of the firm, or a component of an audit client of the firm, the professional 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 or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.45 If the professional accountant is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the professional 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 or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.46 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 professional 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.
Factors relevant to considering the communication in accordance with paragraphs 225.45 and 225.46 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.

In all cases, 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 it should be addressed in accordance with the provisions of this section.

**Considering Whether Further Action Is Needed**

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

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 matter.
- 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.

Further action by the professional accountant may 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.

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.
225.53 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, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant’s intentions before disclosing the matter.

225.54 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional 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 considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgement and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

225.55 The professional accountant may consider consulting internally, obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Documentation

225.56 In relation to an identified or suspected act of 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 professional accountant considered, the judgements made and the decisions that were taken.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.49.

The professional accountant is encouraged to consider whether there is a need for any such documentation to be filed separately.
SECTION 230: SECOND OPINIONS

230.0 Opinions expressed informally by a professional accountant may be acted on, and professional accountants shall bear in mind the potential consequences of those opinions. Oral opinions shall as a matter of good practice, because of legal implications, be confirmed in writing as soon as practicable after giving the opinion. If a professional accountant is asked for a “general opinion” (one relative to a hypothetical situation not related to specific entities or circumstances), whether written or oral, the professional accountant shall ensure that the recipient of the opinion understands that it has been given in the context of that particular hypothetical situation only.

230.1 Situations where a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may create threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant or is based on inadequate evidence. The existence and significance of any threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgement.

This Section does not apply to expert evidence assignments, opinions pursuant to litigation and opinions provided to other firms and their clients jointly.

230.2 When asked to provide such an opinion, a professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.

A professional accountant providing a second opinion will normally need to seek contact with the existing accountant (particularly if the existing accountant is engaged as auditor) and the client in order to:

- Ascertain the circumstances in which the consultation has been made; and
- Be apprised of all the facts relevant to the issue at the time the opinion is given.

230.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, a professional accountant in public practice shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

If the client will not allow the opinion-giver to carry out any of the steps referred to above, the opinion-giver must normally decline to act (particularly if the existing accountant is engaged as auditor).
SECTION 240: FEES AND OTHER TYPES OF REMUNERATION

240.0 The Institute does not set charge-out rates or otherwise prescribe the basis for calculating fees, nor does it ordinarily investigate complaints relating solely to the quantum of fees charged. However professional accountants in public practice have certain professional responsibilities in relation to fees as set out in the following paragraphs.

240.1 When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

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

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

240.2A The basis on which fees will be calculated shall be discussed and explained at the earliest opportunity together with, where practicable, the estimated initial fee. Fees shall be determined by reference to:

- The seniority and professional expertise of the persons necessarily engaged on the work;
- The time expended by each;
- The degree of risk and responsibility which the work entails;
- The nature of the client’s business, the complexity of its operation and the work to be performed;
- The priority and importance of the work to the client;
- Any expenses properly incurred.

240.2B The arrangements agreed ought to be confirmed in writing prior to the commencement of any engagement, normally in an engagement letter, including a confirmation of any estimate, quotation or other indication, and where the basis of future fees will differ from that of initial fees, the basis on which such fees will be rendered. Where there is no engagement letter the professional accountant in public practice ought to confirm the initial discussion in writing to the client as soon as practicable.

240.2C In the case of assurance work, and in particular audit work, professional accountants in public practice who obtain work having quoted levels of fees which they have reason to believe are significantly lower than existing fees or, for example, those quoted by other tendering firms, shall be aware that their objectivity and the quality of their work may appear to be threatened by self-interest in securing the client. Such professional accountants in public practice shall ensure that their work complies with relevant standards, guidelines and regulations and, in particular, quality control procedures.
In the event of a complaint being made to the Institute where fees were a feature in obtaining or retaining the work, professional accountants in public practice ought to be prepared to demonstrate that:

- The work done was in accordance with relevant standards; and
- The client was not misled as to the basis on which fees for the current and/or subsequent years are to be determined.

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

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

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

- An advance written agreement with the client as to the basis of remuneration;
- Disclosure to intended users of the work performed by the professional accountant in public practice and the basis of remuneration;
- Quality control policies and procedures; or
- Review by an independent third party of the work performed by the professional accountant in public practice.

In some formal appointments under insolvency legislation, in particular bankruptcies, liquidations and administrations, the remuneration of the professional accountant in public practice may, by statute, be based on a percentage of:

- Realisations or the value of the property with which the professional accountant in public practice has to deal; and/or
- Distributions.

Consequently, it may not be possible to base the fee on the principle in paragraph 240.4 above.

In some circumstances, such as advising on a management buy-in or buy-out, the raising of venture capital, acquisition searches or sales mandates, where no professional opinion is given, it may not be appropriate to charge fees save on a contingent fee basis: to require otherwise might deprive potential clients of professional assistance, for example where the capacity of the client to pay is dependent upon the success or failure of the venture.

Due diligence assignments, particularly those performed in relation to a prospective transaction, typically involve a high level of risk and responsibility. A higher fee may be charged for such work in respect of a completed transaction than for the same transaction if it is not completed, for whatever reason, provided that the difference reflects any additional risk and responsibility.

Contingent fees for non-assurance services provided to audit clients and other assurance clients are discussed in Sections 290 and 291 of this Code.
Fee Information and Disputes

240.4D A professional accountant in public practice shall furnish, either in the fee account or subsequently on request, and without further charge, such details as are reasonable to enable the client to understand the basis on which the fee account has been prepared.

240.4E Where fees rendered without prior agreement exceed, by more than a reasonable amount, a quotation or estimate or indication of fees given by a professional accountant in public practice, the professional accountant in public practice shall be prepared to provide the client with a full and detailed explanation of the excess and to take steps to resolve speedily any dispute which arises.

240.4F A professional accountant in public practice whose fees have not been paid may be entitled to retain certain books and papers of a client by exercising a lien and may refuse to pass on information to the client or the successor accountant until those fees are paid (but see Section 210, ‘Professional Appointment’). However, a professional accountant in public practice who so acts shall be prepared to take reasonable and prompt steps to resolve any dispute relating to the amount of that fee. In respect of any fee dispute, a professional accountant in public practice shall be aware of the fee arbitration services offered by the Institute.

A Helpsheet on “Exercising a right of lien” can be obtained from https://www.icas.com/regulation/regulatory-guidance

240.4G Overdue fees may give rise to a perceived or real self-interest threat (See Section 280). Similar considerations apply to work-in-progress for a client if billing is unduly deferred.

Referrals and commissions

240.5 In certain circumstances, a professional accountant in public practice may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice or other expert. A professional accountant in public practice may receive a commission from a third party (for example, a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission creates a self-interest threat to objectivity and professional competence and due care.

240.6 A professional accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee also creates a self-interest threat to objectivity and professional competence and due care.

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

- Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred;
- Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice; or
- Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.

Remuneration of employees would not normally be included within the scope of the payments addressed above.
240.7A A fiduciary relationship between a professional accountant in public practice and his or her client will arise where the accountant acts as the client’s agent; and/or where the accountant gives professional advice to the client so as to give rise to a relationship which the law would regard as one of ‘trust and confidence’. Where a fiduciary relationship exists at the time between a professional accountant in public practice and a client, any commission, fee or other benefit received by the professional accountant in public practice belongs to the beneficiary of the fiduciary relationship. The professional accountant in public practice holding the fiduciary position is entitled to retain the commission only with the fully informed consent of the beneficiary. The professional accountant in public practice is therefore legally bound to account to the client for any commission, fee or other benefit received from a third party at any time. The Institute is advised that the effect is that a professional accountant in public practice will require the informed consent of the client if the professional accountant in public practice is to retain the commission, fee or other benefit or any part of it. If professional accountants in public practice are in doubt as to whether the circumstances give rise to a fiduciary relationship, they are recommended to seek appropriate legal advice.

240.7B Under the general law, professional accountants must adopt one of the following courses of action in respect of commission receivable2:

(a) **Account to the client for the commission or other benefit**

This could be effected:
- By payment of the whole commission or benefit to the client, or
- By deducting the amount received from the fees otherwise chargeable to the client and by showing such deduction on the face of the bill.

(b) **Obtain the client’s advance consent to each receipt of commission**

This involves obtaining consent before the commission is received and the firm must disclose, in advance, the actual amount of the commission (or its basis of calculation) and the terms and timing of its payment.

(c) **Obtain the client’s advance, written consent to the member’s retaining commission**

This could be by way of the engagement letter, or by a supplementary agreement, containing explicit wording permitting such retention, such as the following:

> ‘In some circumstances, commissions or other benefits may become payable to us [or to one of our associates] in respect of transactions we [or such associates] arrange for you, in which case you will be notified in writing of the amount and terms of payment. [The fees that would otherwise be payable by you as described above will [or will not] be abated by such amounts.] You consent to such commission or other benefits being retained by us [or, as the case may be, by our associates,] without our, [or their,] being liable to account to you for any such amounts.’

Note:

i. Before the client agrees to any such provision, examples must be given of likely commissions that may be received and the likely amounts, and it shall be emphasised that these are only examples and may not cover all receipts in the future. If, in the future, abnormally large commissions are received which were not envisaged when the engagement letter was signed, it would be advisable to obtain specific consent to the retention of those commissions in order to meet any assertion that retention of such commission was not authorised by the engagement letter.

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2 Professional accountants are reminded that where detailed regulatory requirements cover the same issues as this Code, the regulatory requirements prevail where these are more onerous.
ii. Any further provision which indicated likely levels of commission, and then continued ‘Commissions of less than £X will be retained by us, and commissions of more than £X will be divided equally between yourselves and ourselves’ might be effective. Members are advised however to consult with their lawyers before including such a provision.

iii. Where an existing client of the member is to sign a new engagement letter containing such a provision as is referred to above, the firm shall explain that, in the absence of the signed engagement letter, the firm could retain the commission only if the client gave full and informed consent on each occasion after receiving full disclosure of the amount involved, whereas, once the letter is signed, the firm can keep the commission.

(d) Obtain the client’s subsequent consent

If the member does not obtain the client’s consent in one of the ways referred to in paragraph 240.7b above, the commission may still be able to be retained if the client subsequently expressly consents to such retention (on the basis of full disclosure of the amount, terms and timing of payment).

240.7C Alternatively professional accountants will be able to retain the commission if the client (with knowledge of all relevant facts) impliedly consents by acquiescing in such retention, for instance by deciding to proceed with the transaction having been notified both of the fact that the firm will receive commission and of the full details of that commission.

240.7D Even where a fiduciary relationship does not exist, where a professional accountant in public practice becomes aware that any commission, fee or other benefit may be received (directly or indirectly), there shall be disclosed to the client in writing:

- That commission or benefit will result or is likely to result;
- When the fact is known, that such commission or benefit will be received; and
- As early as possible, the amount and terms of the benefit to the professional accountant in public practice.

240.7E As regards payments of referral fees, professional accountants in public practice have a responsibility to ascertain that a referral matter is in accordance with this Code because professional accountants in public practice must not do, or be seen to do, through others what they may not do themselves. To this end professional accountants in public practice shall consider whether there are any indications that the work or client has been initially procured in an unprofessional manner.

In addition, where needed to complete a referred engagement properly, professional accountants in public practice shall:

- Satisfy themselves as to the competence and professional standards of staff within their firm whose work on the engagement it would be their duty to review; and
- Ensure their right of direct access to the client and, in appropriate circumstances, render their own fee account to the client.

240.7F In the case of insolvency work, Insolvency Practitioners shall have regard to Part D of this Code.

240.7G Where an invitation to conduct a statutory audit comes other than directly from the client, the professional accountant in public practice shall first ensure that the audit appointment has properly been made in accordance with statute. It shall be made clear to all interested parties on all relevant documents that the professional accountant in public practice is acting as principal, with all that that function implies. In those circumstances, professional accountants in public practice shall deal directly with the client and shall render their own fee account in addition to complying with the other requirements above.
240.8 A professional accountant in public practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

Attention is drawn to additional requirements in respect of agency and referral arrangements, in Section 241.
SECTION 241: AGENCIES AND REFERRALS

241.1 When referring or receiving referred work or when establishing agency arrangements, which are in effect permanent arrangements for making referrals, professional accountants in public practice are required to assess threats to compliance with the fundamental principles and to apply safeguards. A referral covers a formal request made in the course of a professional relationship for advice on the selection of a potential professional adviser and may also cover an informal request, regardless of whether there is an existing relationship.

Attention is drawn to additional requirements in respect of referral fee arrangements, in Section 240.

Duty of Care

241.2 In making a referral, a duty of care may arise. The extent of a duty of care varies according to the circumstances, including whether the exchange or provision of information was solicited or not. A greater duty of care will arise for matters which are reasonably expected to be within a professional accountant in public practice’s knowledge or where a fee is charged. A professional accountant in public practice needs to look at this from the client’s or enquirer’s point of view and what their expectations would be of what a professional accountant in public practice would be expected to know:

- Where a referral fee is received, or where the service referred is in a professional or finance-related sphere, the client (or enquirer) can reasonably presume knowledge by the professional accountant in public practice. Any limitation of knowledge would clearly need to be explained.

- Where the enquiry relates to a service outside the normal sphere of expertise of an accountant and no referral fee is contemplated, then it is reasonable to presume that the enquiry is being made in a personal capacity, unless circumstances suggest otherwise. It is still advisable to express any limitations of knowledge and to clarify, in case of doubt, that any opinion is based on personal experience rather than in a professional capacity.

241.3 When making a referral, disclosure of relevant knowledge limitations shall be considered. Professional accountants in public practice shall consider whether it would be in their interest for such knowledge limitations to be disclosed in writing, according to the circumstances. Factors that a professional accountant in public practice shall consider when making such a decision include:

- The nature of the professional relationship with the enquirer (an existing client, someone who could reasonably be considered to be making the enquiry as a prospective client, or a casual enquiry).

- The context in which the enquiry is made. Is it professional or personal, casual or formal?

- The nature of the personal relationship. Does the enquirer know the professional accountant in public practice is a Chartered Accountant and are they consulting them as a respected professional?

- The scope of enquiry and whether a referral fee is contemplated, as considered in Section 240.

- The enquirer’s expectations.

241.4 A referral arises typically, when the professional accountant in public practice does not have the expertise and/or resource in house to undertake the potential engagement. It follows that the professional accountant in public practice will not necessarily know enough to be able to completely assess whether the third party is the optimum choice or not. This is an inevitable limitation in most referrals, and what the referral is based on will vary. However, the professional accountant in public practice shall consider the fitness for purpose of the third party to address the client’s needs.
In making that consideration, the professional accountant in public practice:

- Can take account of the professional or regulatory status of the prospective referee;
- Is not normally expected to have to make additional enquiries about the prospective referee and can make the assessment based on what is already known.

A referral shall not normally be made to a third party even with a disclaimer, when, taking into account known factors, the professional accountant in public practice knows of a better alternative. If the client or enquirer insists on being referred to a particular third party and the professional accountant in public practice believes there is a better alternative, the reference may be made but the client or enquirer shall be made aware of the professional accountant in public practice’s concerns. Where the referral relates to an end product or service, rather than an intermediary, and the professional accountant in public practice knows there are other alternatives but does not know if they are better, this shall be explained.

If there is a relationship with the third party, for example a family connection or an automatic referral arrangement, there are clear self-interest or familiarity threats and the connection shall be disclosed. This is particularly important where a professional accountant in public practice is considering recommending the products of another supplier with which there is an agency, and/or a principal or employee of the professional accountant in public practice’s firm is a principal or officer of the other supplier. If in substance there is a one–to–one relationship between the professional accountant in public practice and the third party (for example, the professional accountant in public practice is the only accountant in the area and the third party is the only solicitor), which implies automatic referral, this shall also be disclosed.

In summary, professional accountants in public practice shall:

- Consider any factors they are aware of that would indicate the proposed third party is not fit for purpose in terms of the potential engagement. The professional accountant in public practice shall take into account what a reasonable person might expect a Chartered Accountant to know;
- Make clients (or enquirers) that are proposed to be referred, aware of limitations in knowledge;
- Disclose any referral arrangement;
- Ensure that any contractual arrangement does not override the needs of an individual client.

Establishing agencies

The guidance which follows is intended to assist professional accountants in public practice in their arrangements with other suppliers of services and products.

This Section addresses agreements that in effect provide for permanent arrangements for referrals. The issues are considered to be similar to those above for referrals in general except that an agency contract will usually bind the agent in terms of whom it can refer to for particular types of work. When professional accountants in public practice are considering the establishment of an agency, the terms of the agency contract (actual or implied) shall not require exclusive referral of all clients regardless of suitability. For example, professional accountants in public practice shall not be party to an agency by which they are constrained to channel all funds received by it for investment into a single bank/building society. Such a clause would make important safeguards inoperable.

Before accepting appointment as auditor of another entity of which they are an agent, professional accountants in public practice shall consider whether the agency constitutes a material business relationship. Refer to the FRC Ethical Standard Section 2 ‘Financial, Business, Employment and Personal Relationships’ (or Section 290, ‘Independence – Audit and Review Engagements’, if applicable).
Professional accountants in public practice shall not, because of the self-interest threat, enter into any financial arrangements with another supplier either personally or through their firm which would prejudice the objectivity of themselves or their firm.

Before accepting or continuing an agency with another supplier, professional accountants in public practice shall satisfy themselves that their ability to discharge their professional obligations to their clients is not compromised.

A professional accountant in public practice shall not in any circumstances conduct its practice in such a manner as to give the impression that the professional accountant is a principal rather than an agent. This would include considering signs on premises and any other outward signs or literature used. This would relate in particular to agencies with entities such as banks and building societies, where confusion as to status can arise.

Firms in the Republic of Ireland must be authorised under the Investment Intermediaries Act, 1995 to hold an agency with a building society and that arrangement shall relate solely to deposit taking and not for example relate to products of a particular insurance company or unit trust organisation for which the building society is an appointed representative. Firms holding building society agencies must ensure that their agency agreement contains no obligation which would cause or would be perceived to cause, them to breach the provisions of either the Act or the Institute of Chartered Accountant in Ireland’s Investment Business Regulations and Guidance. Firms cannot hold agencies with banks.

Investment business agencies and introductions

When considering referrals of investment business ("introductions") or the establishment of investment business agencies, professional accountants in public practice shall apply the general principles and requirements set out in the previous Sections. However, they will also need to consider:

- Whether the introduction or agency is permitted by regulation; and
- Whether the status of the third party investment business provider is compatible with the requirement to give objective advice.

Regulated activities under the Financial Services and Markets Act 2000 (United Kingdom)

In order to make a decision about whether an introduction is a regulated activity, the professional accountant in public practice must look at how the introduction is made and also what type of investment the client is considering (such as life assurance and pensions, unit trusts, shares, mortgages or general insurance). A regulated introduction can only be made under the terms of the Act by a firm which is licensed by the Institute as a Designated Professional Body ("DPB") (a licensed firm) or a firm which is authorised by the Financial Conduct Authority ("authorised"). Unauthorised/ unlicensed firms are restricted in that they can only make introductions for general financial advice where no specific type of investment is referred to, or for a restricted range of investments, such as shares and unit trusts.

Further guidance on the difference between a regulated introduction and the provision of information in respect of insurance business, and the regulatory consequences thereof, is set out in Schedule 6 to part 3 of the DPB Handbook, available at: [www.icas.com](https://www.icas.com/regulation/designated-professional-body).

Having established that an introduction can be made in compliance with regulatory requirements, professional accountants in public practice shall bear in mind the need to provide their clients with objective advice, in compliance with these ethical standards.

Professional accountants in public practice can become appointed representatives of another authorised firm. When selecting which authorised firm to become an appointed representative of, professional accountants in public practice shall again bear in mind the need to provide their clients with objective advice.
Regulated Activities under the Investment Intermediaries Act, 1995 (Republic of Ireland)

241.21 Professional accountants in public practice may only make an introduction or refer clients to another authorised firm if they are themselves authorised to conduct investment business under the Investment Intermediaries Act 1995 and where required hold an appropriate letter of appointment.

241.22 Professional accountants in public practice when selecting an authorised firm shall bear in mind the need to provide their clients with objective advice.

Status of investment business providers

241.23 In the UK authorised firms can fall into the following categories:

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>What the firm can recommend</th>
<th>Can there generally be introductions to this type of firm?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Independent</td>
<td>(i) Independent advice across all markets and all retail investment products.</td>
<td>Yes (241.24 below)</td>
</tr>
<tr>
<td></td>
<td>(ii) Independent advice in respect of a relevant market, which whilst not including all retail investment products does include all retail investment products within the relevant market.</td>
<td>Depends on the specific circumstances (241.25 below)</td>
</tr>
<tr>
<td>• Restricted</td>
<td>Restricted advice which does not meet the standard for independence advice as listed above.</td>
<td>Depends on scope of choice (241.26 and 241.27 below)</td>
</tr>
</tbody>
</table>

Further information on the above can be found in the FCA Handbook and related guidance: www.fca.org.uk

In Ireland authorised firms can fall into the following categories:

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>What the firm can recommend</th>
<th>Can there generally be introductions to this type of firm?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Independent</td>
<td>Recommend products from the whole market and offer clients the ability to pay by fee. Only these firms can describe themselves as independent financial advisers. The client may be able to elect for the adviser to be paid by commission.</td>
<td>Yes (241.24 below)</td>
</tr>
<tr>
<td>• Multi-agency</td>
<td>Recommend the products of more than one product provider with whom the firm has agreements, but recommends on less than the whole market.</td>
<td>Depends on scope of choice (241.26 below)</td>
</tr>
<tr>
<td>• Tied</td>
<td>Recommend the products of one product provider.</td>
<td>No</td>
</tr>
</tbody>
</table>

241.24 An introduction to an independent firm (for the UK, category (i) only per above table) would be likely to meet the requirement to give objective advice but professional accountants in public practice are reminded of the general requirements above.

241.25 In situations where the recommendation would relate to a firm providing independent advice in respect of a relevant market that does not encompass all retail investment products (for the UK, category (ii) only per above table) consideration has to be given as to whether the relevant market covered comprises all retail investment products which are capable of meeting the investment needs and objectives of the client.
Professional accountants in public practice may in some situations be able to introduce to restricted firms and still comply with the ethical requirements (however, see paragraphs 241.16 - 241.18 above as to whether the introduction can only be made by a DPB licensed firm or an FCA authorised firm, if it is a "regulated" activity). Clearly the principal threat is that clients might not be offered the most appropriate choice. The professional accountant in public practice shall assess the client's requirements and whether the restricted firm places business with the product providers who account for a large majority of the relevant market or offer the sector of the market which is most suitable for the client's needs. However, members must ensure that in making such an assessment, they are not effectively making their own recommendation unless they are able to do so under the terms of a licence or authorisation. The professional accountant in public practice may decide that this does not restrict the client's access to the range of product providers to an extent where there is any potential detriment. The professional accountant in public practice shall make the client aware of restrictions in the range of investments offered by the firm to which the client is being referred.

In respect of a restricted firm whether an introduction will be acceptable will depend on the specific circumstances and the range and choice of products offered. Professional accountants should apply the guidance in Sections 241.1 to 241.8 above.

Similar considerations to those noted above apply to whether a professional accountant in public practice shall become an appointed representative under the Financial Services and Markets Act 2000. Thus, for example, a professional firm cannot become an appointed representative for regulated investment business, of a restricted firm as the agency agreement would probably oblige the firm to make referrals to the principal in all circumstances and the firm would be unable to provide objective advice.
SECTION 250: MARKETING PROFESSIONAL SERVICES

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

250.2 A professional accountant in public practice shall not bring the profession into disrepute when marketing professional services. The professional accountant in public practice shall be honest and truthful, and not:

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

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

If the professional accountant in public practice is in doubt about whether a proposed form of advertising or marketing is appropriate, the professional accountant in public practice shall consider consulting with the Institute.

In particular, where professional accountants in public practice seek to make comparisons in their promotional material between their practices or services and those of others, great care will be required. In particular they shall ensure that such comparisons:

- Are objective and not misleading;
- Relate to the same services;
- Are factual and verifiable; and
- Do not discredit or denigrate the practice or services of others.

Particular care is needed in unclear or subjective claims of size or quality. For example, it is impossible to know whether a claim to be “the largest firm” in an area is a reference to the number of partners or staff, the number of offices or the amount of fee income. A claim to be “the best firm” is unlikely to be able to be substantiated.

250.3 A professional accountant in public practice shall ensure that all advertisements, including in letterheads, invoices and other practice documents, comply with the law and conform with the requirements of the relevant Advertising Standards Authority (for example, the British Code of Advertising) notably, as to legality, decency, clarity, honesty and truthfulness.

250.4 If reference is made in promotional material to fees, the basis on which the fees are calculated, or to hourly or other charging rates, the greatest care shall be taken to ensure that such reference does not mislead as to the precise range of services and the time commitment that the reference is intended to cover. Professional accountants in public practice are unlikely to be able to comply with the requirements of 250.2 if making a comparison in such material between their fees and the fees of another accounting practice, whether members or not. A professional accountant in public practice may offer a free consultation at which fees are discussed.

250.5 Professional accountants in public practice shall never promote or seek to promote their services, or the services of other professional accountants in public practice, in such a way, or to such an extent, as to amount to harassment of a potential client.

It shall be noted that special rules apply in relation to the conduct of Insolvency Practice and licensed practitioners shall have regard to the relevant legislation and to Part D of this Code. Similarly, professional accountants in public practice whose firm is registered for the conduct of investment business shall have recourse to the relevant Investment Business Regulations.

250.6 For further guidance on marketing professional services, see also Sections 210, ‘Professional Appointment’ and 230, ‘Second Opinions’.
SECTION 260: GIFTS AND HOSPITALITY

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

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

260.3 A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice shall not accept such an offer.

260.4 Further guidance on dealing with gifts and hospitality in an assurance engagement is available in paragraph 290.225. If applicable, reference should also be made to Section 4 of the FRC Ethical Standard.

260.5 A professional accountant in public practice is reminded of the requirements of the Bribery Act 2010.
SECTION 270: CUSTODY OF CLIENT ASSETS

270.1 A professional accountant in public practice shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a professional accountant in public practice holding such assets.

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

(a) Keep such assets separately from personal or firm assets;
(b) Use such assets only for the purpose for which they are intended;
(c) At all times be ready to account for those assets and any income, dividends, or gains generated, to any persons entitled to such accounting; and
(d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.


270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a professional accountant in public practice shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the professional accountant shall comply with the provisions of section 225.

Further guidance on money laundering regulation and legislation is available from the ICAS website: www.icas.com.
SECTION 280: OBJECTIVITY – ALL SERVICES

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

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

280.3 The existence of threats to objectivity when providing any professional service will depend upon the particular circumstances of the engagement and the nature of the work that the professional accountant in public practice is performing.

In particular objectivity may be subject to self interest or familiarity threats in the following circumstances.

a) Family, other personal or business relationships

Objectivity may be subject to a self-interest threat where a mutual business interest exists with a client or any officer or employee of the client. In such circumstances safeguards shall be applied and adequate disclosure of any conflict of interest shall be made to all relevant parties.

Professional accountants in public practice who hold office in a client company or have a comparable business relationship with a client, shall be aware of the dangers inherent in seeking to combine such a role with that of business adviser or other professional service having regard to the self-interest threat to their objectivity. In such circumstances, professional accountants in public practice shall be aware of the distinctive nature of each of the roles in which they are professionally engaged, and employ safeguards, including disclosure where appropriate.

b) Loans

Objectivity may be subject to a self-interest threat if a firm, or any principal of the firm shall directly or indirectly make a loan to, or receive a loan from the client, or give or accept any guarantee in relation to a debt of the client, firm or principal.

A firm or principal in the firm shall not receive from or make a loan to a client unless the client is a bank or similar institution and the transaction is under normal commercial conditions. This is because the perceived self-interest threat arising in such circumstances is generally seen as being too great to be reduced to an acceptable level by the application of any safeguards.

c) Beneficial Interest in Shares and other Investments

A self-interest threat to objectivity of a professional accountant in public practice may arise in relation to any investment in a company or undertaking with which there is a professional relationship. The threats shall be evaluated and safeguards shall be considered and applied as necessary. If the value of the investment is material to the financial circumstances of the professional accountant in public practice, the threat to independence cannot be reduced to an acceptable level by the application of any safeguards. Consequently, the professional accountant in public practice shall cease to advise professionally or dispose of the interest.

See also Section 260, ‘Gifts and Hospitality’.
A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

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

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

See also Section 220, ‘Conflicts of Interest’.
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290.1 Structure of Section

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

290.1A Auditor Independence

FRC ethical and engagement standards for audits of financial statements, now comprise the FRC Ethical Standard and International Standards on Auditing (ISAs) (UK), and apply to auditors carrying out:

- Statutory audits of companies in accordance with the Companies Act 2006 in the UK;
- Audits of financial statements of entities in accordance with other UK legislation e.g. building societies, credit unions, friendly societies, pension funds, charities and registered social landlords;
- Public sector financial statement audits in the UK, including those carried out either on behalf of the national audit agencies or under contract to those agencies. (The standards governing the conduct and reporting of the audit of financial statements are a matter for the national audit agencies to determine. However, the heads of the national audit agencies in the UK have chosen to adopt the ethical, engagement and quality control standards issued by the FRC for audits as the basis of their approach to the audit of financial statements);
- Other audits performed by audit firms registered with the UK members of the Consultative Committee of Accountancy Bodies (CCAB) unless the nature of the engagement requires the use of other recognised auditing standards, and the rules of the relevant CCAB member does not preclude the use of other recognised auditing standards; and
- Other audits where audit firms not registered with members of the CCAB elect, or are required by contract, to perform the work in accordance with UK auditing standards.

Therefore, when undertaking an audit which falls into any of the categories listed above, a professional accountant in public practice is required to comply with the FRC’s Ethical Standard which can be downloaded from the FRC website at http://www.frc.org.uk. When performing an audit engagement for which the FRC Ethical Standard is not applicable, a professional accountant in public practice shall comply with Section 290 of this Code unless to do so would breach local laws or regulations.

For audits in accordance with ISAs (UK), the independence requirements of the FRC Ethical Standard apply instead of the detailed requirements of Section 290 of the ICAS Code. Although a number of detailed provisions vary between the FRC Ethical Standard and Section 290, both sets of requirements apply a robust principles based approach to the fundamental requirement for independence. ICAS does not consider it in the public interest to require auditors to have to apply both sets of detailed requirements. Therefore in accordance with paragraph 8 of Statement of Membership Obligations (SMO)4 (a statement of obligations for IFAC member bodies, to which ICAS subscribes), ICAS considers that auditors applying the FRC Ethical Standard will be considered to have applied the independence requirements of the ICAS Code.

A professional accountant undertaking an audit in Ireland is required to comply with the audit and ethical standards set by the Irish Auditing and Accounting Supervisory Authority (IAASA). www.iaasa.ie
Review and Other Assurance Engagements

As well as applying to audits undertaken in accordance with ISAs (UK) the FRC’s Ethical Standard also applies to all other public interest assurance engagements that are undertaken in compliance with engagement standards issued by the FRC. Therefore, any professional accountant undertaking such an engagement needs to comply with the FRC’s Ethical Standard. As at 30 June 2017 the FRC’s defined list of engagement standards for public interest assurance engagements comprised the following:

- Reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting – ‘SIRs’); (see below)
- Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (UK and Ireland) 2410; and
- Engagements to provide assurance on client assets to the Financial Conduct Authority (the CASS Standard).

Please note that the above list may be subject to change.

If a professional accountant is undertaking a review engagement other than that which is within the scope of the FRC’s public interest assurance engagements (as noted above) then they shall comply with Section 290 of this Code.

If a professional accountant in public practice is conducting an assurance engagement for a non-audit (or review) client, other than an FRC public interest assurance engagement (see above), they shall follow the ethical guidance on other assurance engagements contained in Section 291 of this Code. If the professional accountant is the auditor of the entity concerned the professional accountant is already required to comply with the requirements of the FRC’s Ethical Standard (see paragraph 1.14) or Section 290 of this Code where the FRC’s Ethical Standard is not applicable. In such situations no additional compliance with Section 291 is required. Where the client is a review client, then as the professional accountant is required to comply with the requirements of Section 290 of this Code, no additional compliance with Section 291 is required.

A professional accountant in public practice acting as an independent examiner for a charity which is registered with a UK Charity regulator (i.e. The Charity Commission for England and Wales, The Office of the Scottish Charity Regulator (OSCR) or the Charity Commission for Northern Ireland) shall comply with the independence requirements of the respective regulator and is specifically scoped out of the requirements of this section.

A professional accountant in public practice acting as an independent examiner for a charity which is exempted from charity registration in England and Wales shall comply with the independence requirements of the Charity Commission for England and Wales and is specifically scoped out of the requirements of this section.

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

In this section, the term(s):
(a) “Audit,” “audit team,” “audit engagement,” “audit client” and “audit report” includes review, review team, review engagement, review client and review report; and
(b) “Firm” includes network firm, except where otherwise stated.

A Conceptual Framework Approach to Independence

In the case of audit engagements, it is in the public interest and, therefore, required by this Code, that members of audit teams, firms and network firms shall be independent of audit clients.
The objective of this section is to assist firms and members of audit teams in applying the conceptual framework approach described below to achieving and maintaining independence.

Independence comprises:

(a) **Independence of Mind**

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

(b) **Independence in Appearance**

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

The conceptual framework approach shall be applied by professional accountants to:

(a) Identify threats to independence;

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

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

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

A professional accountant shall use professional judgement in applying this conceptual framework.

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

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

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

Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.
This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organisation of a firm. The firm is required by International Standards on Quality Control (ISQCs) to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing (ISAs) require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

Networks and Network Firms

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

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

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

Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.

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

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

Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.

Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.
Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.

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

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

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

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

### Public Interest Entities

Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:

(a) All listed entities; and

(b) Any entity:

(i) Defined by regulation or legislation as a public interest entity; or

(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 may be promulgated by any relevant regulator, including an audit regulator.
Firms and member bodies 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 may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

Related Entities

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

Those Charged with Governance

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

(a) Consider the firm’s judgements in identifying and evaluating threats to independence;
(b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and
(c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

In complying with requirements in this section to communicate with those charged with governance, the firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity’s governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

Documentation

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

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

(a) When safeguards are required to reduce a threat to an acceptable level, the professional accountant shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and
(b) When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the professional accountant shall document the nature of the threat and the rationale for the conclusion.

**Engagement Period**

290.30 Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. 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 terminated or the issuance of the final audit report.

290.31 When 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.

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

- Not including personnel who provided the non-assurance service as members of the audit team;
- Having a professional accountant review the audit and non-assurance work as appropriate; or
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

**Mergers and Acquisitions**

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

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

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

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

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

(a) The interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of the effective date of the merger or acquisition;

(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted under this section, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and

(c) Appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance. Examples of transitional measures include:

• Having 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; or

• Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

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

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

(b) Complies with the requirements of paragraph 290.35(b)--(c); and

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

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

290.38 The professional accountant shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

Breach of a Provision of this Section

290.39 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of a breach may be that termination of the audit engagement is necessary.
When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

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

When a breach is identified, the firm shall, in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for the policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm’s objectivity and ability to issue an audit report. The significance of the breach will depend on factors such as:

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

Depending upon the significance of the breach, it may be necessary to terminate the audit engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit report.

Examples of actions that the firm may consider include:

- Removing the relevant individual from the audit team;
- Conducting an additional review of the affected audit work or re-performing that work to the extent necessary, in either case using different personnel;
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and
- Where the breach relates to a non-assurance service that affects the accounting records or an amount that is recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.
290.45 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

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

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

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

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

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

Paragraphs 290.50 to 290.99 are intentionally left blank.
Application of the Conceptual Framework Approach to Independence

290.100 Paragraphs 290.102 to 290.226 describe specific circumstances and relationships that create or may create threats to independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and identify certain situations where no safeguards could reduce the threats to an acceptable level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence. The firm and the members of the audit team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to independence or reduce them to an acceptable level.

290.101 Paragraphs 290.102 to 290.125 contain references to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Financial Interests

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

(a) The role of the person holding the financial interest,
(b) Whether the financial interest is direct or indirect, and
(c) The materiality of the financial interest.

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

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

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

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

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

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;
- Having a professional accountant review the work of the member of the audit team; or
- Removing the individual from the audit team.
290.106 If a member of the audit team, a member of that individual's immediate family, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the audit client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have such a financial interest: a member of the audit team; a member of that individual's immediate family; and the firm.

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

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

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

290.110 If other partners and managerial employees who provide non-audit services to the audit client, except those whose involvement is minimal, or their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither such personnel nor their immediate family members shall hold any such financial interests in such an audit client.

290.111 Despite paragraphs 290.108 and 290.110, the holding of a financial interest in an audit client by an immediate family member of:

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

(b) A partner or managerial employee who provides non-audit services to the audit client

is deemed not to compromise independence if the financial interest is received as a result of the immediate family member's employment rights (for example, through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level.

However, when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest shall be disposed of or forfeited as soon as practicable.

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

(a) Dispose of the interest; or

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

290.113 A self-interest, familiarity or intimidation threat may be created if a member of the audit team, or a member of that individual's immediate family, or the firm, has a financial interest in an entity when a director, officer or controlling owner of the audit client is also known to have a financial interest in that entity. The existence and significance of any threat will depend upon factors such as:
• The role of the professional on the audit team;
• Whether ownership of the entity is closely or widely held;
• Whether the interest gives the investor the ability to control or significantly influence the entity; and
• The materiality of the financial interest.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
• Removing the member of the audit team with the financial interest from the audit team; or
• Having a professional accountant review the work of the member of the audit team.

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

(a) A partner in the office in which the engagement partner practices in connection with the audit;
(b) Other partners and managerial employees who provide non-assurance services to the audit client, except those whose involvement is minimal; or
(c) Their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client as trustee.

Such an interest shall not be held unless:

(a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;
(b) The interest in the audit 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) The trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the audit client.

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

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

Whether these interests create a self-interest threat will depend on factors such as:
• The firm’s organisational, operating and reporting structure; and
• The nature of the relationship between the individual and the member of the audit team.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
• Removing the member of the audit team with the personal relationship from the audit team;
• Excluding the member of the audit team from any significant decision-making concerning the audit engagement; or
• Having a professional accountant review the work of the member of the audit team.

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

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

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

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

Loans and Guarantees

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

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

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

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

Similarly, if the firm or a member of the audit team, or a member of that individual’s immediate family, makes or guarantees a loan to an audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level.

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

Business Relationships

A close business relationship between a firm, or a member of the audit team, or a member of that individual’s immediate family, and the audit client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships include:
• Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client.

• Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.

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

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

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

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

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

(a) The business relationship is insignificant to the firm, the member of the audit team and the immediate family member, and the client;

(b) The financial interest is immaterial to the investor or group of investors; and

(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

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

• Eliminating or reducing the magnitude of the transaction; or

• Removing the individual from the audit team.

Family and Personal Relationships

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

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

Threats to independence are created when an immediate family member of a member of the audit team is an employee in a position to exert significant influence over the client’s financial position, financial performance or cash flows. The significance of the threats will depend on factors such as:

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

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

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

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

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

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

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

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

Threats to independence are created when a member of the audit team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion. A member of the audit team who has such a relationship shall consult in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:
• The nature of the relationship between the individual and the member of the audit team;
• The position the individual holds with the client; and
• The role of the professional on the audit team.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:
• Removing the professional from the audit team; or
• Structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.

290.131 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the firm who is not a member of the audit team and (b) a director or officer of the audit client or an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion. Partners and employees of the firm who are aware of such relationships shall consult in accordance with firm policies and procedures. The existence and significance of any threat will depend on factors such as:
• The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;
• The interaction of the partner or employee of the firm with the audit team;
• The position of the partner or employee within the firm; and
• The position the individual holds with the client.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
• Structuring the partner’s or employee’s responsibilities to reduce any potential influence over the audit engagement; or
• Having a professional accountant review the relevant audit work performed.

Employment with an Audit Client

290.132 Familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion, has been a member of the audit team or partner of the firm.

290.133 If a former member of the audit team or partner of the firm has joined the audit client in such a position and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be deemed to be compromised if a former member of the audit team or partner joins the audit client as a director or officer, or as an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion, unless:

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

(b) The individual does not continue to participate or appear to participate in the firm’s business or professional activities.
290.134 If a former member of the audit team or partner of the firm has joined the audit client in such a position, and no significant connection remains between the firm and the individual, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

- The position the individual has taken at the client;
- Any involvement the individual will have with the audit team;
- The length of time since the individual was a member of the audit team or partner of the firm; and
- The former position of the individual within the audit team or firm, for example, whether the individual was responsible for maintaining regular contact with the client’s management or those charged with governance.

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

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

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

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

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

Audit Clients that are Public Interest Entities

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

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

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

290.138 An intimidation threat is created when the individual who was the firm’s Senior or Managing Partner (Chief Executive or equivalent) joins an audit client that is a public interest entity as:
An employee in a position to exert significant influence over the preparation of the entity’s accounting records or its financial statements; or

A director or officer of the entity.

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

Independence is deemed not to be compromised if, as a result of a business combination, a former key audit partner or the individual who was the firm’s former Senior or Managing Partner is in a position as described in paragraphs 290.137 and 290.138, and:

(a) The position was not taken in contemplation of the business combination;

(b) Any benefits or payments due to the former partner from the firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;

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

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

Temporary Staff Assignments

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

(a) Providing non-assurance services that would not be permitted under this section; or

(b) Assuming management responsibilities.

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

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

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

Recent Service with an Audit Client

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

If, during the period covered by the audit report, a member of the audit team had served as a director or officer of the audit client, or was an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the audit team.
Self-interest, self-review or familiarity threats may be created if, before the period covered by the audit report, a member of the audit team had served as a director or officer of the audit client, or was an employee in a position to exert significant influence over the preparation of the client’s accounting records or financial statements on which the firm will express an opinion. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement. The existence and significance of any threats will depend on factors such as:

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

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

Serving as a Director or Officer of an Audit Client

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

The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

If a partner or employee of the firm serves as Company Secretary for an audit client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level. Despite paragraph 290.144, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

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

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

General Provisions

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

- How long the individual has been a member of the audit team;
- The role of the individual on the audit team;
- The structure of the firm;
- The nature of the audit engagement;
- Whether the client’s management team has changed; and
- Whether the nature or complexity of the client’s accounting and reporting issues has changed.
The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

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

**Audit Clients that are Public Interest Entities**

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

290.150 Despite paragraph 290.149, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

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

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

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

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

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

290.153 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 may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.
Provision of Non-assurance Services to an Audit Client

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

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

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

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

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

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

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

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

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

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

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

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

Management Responsibilities

290.159 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.

290.160 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. 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 of 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 the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework.
• Taking responsibility for designing, implementing, monitoring or maintaining internal controls.

290.161 A firm shall not assume a management responsibility for an audit client. The threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Subject to compliance with paragraph 290.162, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.162 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the responsibility of management. This includes ensuring that the client’s management:
• 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 the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
• Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client’s purpose; and
• Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Administrative Services

290.163 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgement and are clerical in nature. 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. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Preparing Accounting Records and Financial Statements

General Provisions

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

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

290.166 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve:

• The application of accounting standards or policies and financial statement disclosure requirements;

• The appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or

• Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence so long as the client is responsible for making decisions in the preparation of the accounting records and financial statements.

290.167 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit clients that are not public interest entities

290.168 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Services that are routine or mechanical in nature require little to no professional judgement from the professional accountant. Some examples of such 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.

• Recording a transaction for which the client has already determined the amount to be recorded, even though the transaction involves a significant degree of subjectivity.

• Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.

• Posting client-approved entries to the trial balance.

• Preparing financial statements based on information in the client-approved trial balance and preparing the related notes based on client-approved records.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
• Arranging for such services to be performed by an individual who is not a member of the audit team; or
• If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

Audit clients that are public interest entities

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

290.170 Despite paragraph 290.169, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not members of the audit team and:

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

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

Valuation Services

General Provisions

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

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

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

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

• Having a professional who was not involved in providing the valuation service review the audit or valuation work performed; or
• Making arrangements so that personnel providing such services do not participate in the audit engagement.
290.173 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

290.174 If a 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 provisions included in paragraph 290.186 apply.

Audit clients that are not public interest entities

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

Audit clients that are public interest entities

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

**Taxation Services**

290.177 Taxation services comprise a broad range of services, including:
- Tax return preparation;
- Tax calculations for the purpose of preparing the accounting entries;
- Tax planning and other tax advisory services; and
- Assistance in the resolution of tax disputes.

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

290.178 Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as:
- The system by which the tax authorities assess and administer the tax in question and the role of the firm in that process;
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it;
- The particular characteristics of the engagement; and
- The level of tax expertise of the client’s employees.

**Tax Return Preparation**

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

Audit clients that are not public interest entities

290.180 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. The significance of the threat will depend on:

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

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

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

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

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

Audit clients that are public interest entities

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

Tax Planning and Other Tax Advisory Services

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

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

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements;
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework;
- The level of tax expertise of the client’s employees;
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to independence.

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

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

290.185 Where 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;

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

290.186 In providing tax services to an audit client, a firm may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the financial statements, the provisions included in paragraphs 290.171 to 290.176 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax), this would not generally create threats to independence if such effect on the financial statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements, the existence and significance of any threat created will depend upon factors such as:

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

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

- Using professionals who are not members of the audit team to perform the service;
- Having a professional review the audit work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

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

The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion;

The extent to which the matter is supported by tax law or regulation, other precedent, or established practice;

Whether the proceedings are conducted in public; and

The role management plays in the resolution of the dispute.

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

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

Where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements on which the firm will express an opinion, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client. What constitutes a “public tribunal or court” shall be determined according to how tax proceedings are heard in the particular jurisdiction.

The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) for the audit client in relation to the matter that is being heard before a public tribunal or court.

Internal Audit Services

General Provisions

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

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;
- Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;
- Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
Internal audit services involve assisting the audit client in the performance of its internal audit activities. The provision of internal audit services to an audit client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit. Performing a significant part of the client’s internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm’s personnel assume a management responsibility when providing internal audit services to an audit client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm’s personnel shall not assume a management responsibility when providing internal audit services to an audit client.

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

(a) Setting internal audit policies or the strategic direction of internal audit activities;
(b) Directing and taking responsibility for the actions of the entity’s internal audit employees;
(c) Deciding which recommendations resulting from internal audit activities shall be implemented;
(d) Reporting the results of the internal audit activities to those charged with governance on behalf of management;
(e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;
(f) Taking responsibility for designing, implementing and maintaining internal control; and
(g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a)–(f).

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

(a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;
(b) The client’s management or those charged with governance 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.

When a firm uses the work of an internal audit function, ISAs require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility that the audit team will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The significance of the threat will depend on factors such as:
• The materiality of the related financial statement amounts;
• The risk of misstatement of the assertions related to those financial statement amounts; and
• The degree of reliance that will be placed on the internal audit service.

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

Audit clients that are public interest entities

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

(a) A significant part of the internal controls over financial reporting;
(b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client’s accounting records or financial statements on which the firm will express an opinion; or
(c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.

IT Systems Services

General Provisions

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

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

(a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;
(b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements;
(c) Implementation of “off-the-shelf” accounting or financial information reporting software that was not developed by the firm if the customization required to meet the client’s needs is not significant; and
(d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

Audit clients that are not public interest entities

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

290.199 The self-review threat is too significant to permit such services unless appropriate safeguards are put in place ensuring that:
(a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

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

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

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

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

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

Audit clients that are public interest entities

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

Litigation Support Services

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

290.203 If the 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 valuation service provisions included in paragraphs 290.171 to 290.176 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Legal Services

290.204 For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include, depending on the jurisdiction, a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and support and assistance to clients’ internal legal departments. Providing legal services to an entity that is an audit client may create both self-review and advocacy threats.

290.205 Legal services that support an audit client in executing a transaction (for example, contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The existence and significance of any threat will depend on factors such as:
• The nature of the service;
• Whether the service is provided by a member of the audit team; and
• The materiality of any matter in relation to the client’s financial statements.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
• Using professionals who are not members of the audit team to perform the service; or
• Having a professional who was not involved in providing the legal services provide advice to the audit team on the service and review any financial statement treatment.

290.206 Acting 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 would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client.

290.207 When a firm is asked to act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion, the firm shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
• Using professionals who are not members of the audit team to perform the service; or
• Having a professional who was not involved in providing the legal services advise the audit team on the service and review any financial statement treatment.

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

Recruiting Services

General Provisions

290.209 Providing recruiting services to an audit client may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:
• The nature of the requested assistance; and
• The role of the person to be recruited.

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

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

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

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

Corporate Finance Services

290.211 Providing corporate finance services such as:

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

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

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

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

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

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

- Using professionals who are not members of the audit team to perform the service; or
- Having a professional who was not involved in providing the corporate finance service to the client advise the audit team on the service and review the accounting treatment and any financial statement treatment.
290.213 Where the effectiveness of corporate finance 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 corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.

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

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

Fees

Fees—Relative Size

290.215 When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

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

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

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

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

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

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

- Reducing the dependency on the audit client;
- Having a professional accountant review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.
Audit Clients that are Public Interest Entities

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

- Prior to the issuance of the audit opinion 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 regulatory body performs a review of that engagement that is equivalent to an engagement quality control review (“a pre-issuance review”); or

- After the audit opinion on the second year’s financial statements has been issued, and before the issuance of the audit opinion 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 regulatory body performs a review of the second year’s audit that is equivalent to an engagement quality control review (“a post-issuance review”).

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

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

Fees—Overdue

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

Contingent Fees

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

290.220 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an audit engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not enter into any such fee arrangement.
290.221 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of a non-assurance service provided to an audit client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level if:

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

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

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

Accordingly, such arrangements shall not be accepted.

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

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

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

• Having a professional accountant review the relevant audit work or otherwise advise as necessary; or
• Using professionals who are not members of the audit team to perform the non-assurance service.

Compensation and Evaluation Policies

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

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

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

• Removing such members from the audit team; or
• Having a professional accountant review the work of the member of the audit team.

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

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

290.225A A professional accountant in public practice is reminded of the requirements of the Bribery Act 2010.

Actual or Threatened Litigation

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

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

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

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

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

Paragraphs 290.227 to 290.499 are intentionally left blank.
Reports that Include a Restriction on Use and Distribution

Introduction

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

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

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

290.503 If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 290.500 to 290.514 do not change the requirement to apply the provisions of paragraphs 290.1 to 290.226 to that audit engagement.

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

Public Interest Entities

290.505 When the conditions set out in paragraphs 290.500 to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.226 that apply to audit engagements for public interest entities.

Related Entities

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

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

290.508 When the conditions set out in paragraphs 290.500 to 290.502 are met, the relevant provisions set out in paragraphs 290.102 to 290.143 apply only to the members of the engagement team, their immediate family members and close family members.

290.509 In addition, a determination shall be made as to whether threats to independence are created by interests and relationships, as described in paragraphs 290.102 to 290.143, between the audit client and the following members of the audit team:

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

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

An evaluation shall be made of the significance of any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement, including those who recommend the compensation of, 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)).

290.510 An evaluation shall also be made of the significance of any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115.

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

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

Employment with an Audit Client

290.513 An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 290.132 to 290.136. Where a threat exists that is not at an acceptable level, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level. Examples of safeguards that might be appropriate include those set out in paragraph 290.134.

Provision of Non-Assurance Services

290.514 If the firm conducts an engagement to issue a restricted use and distribution report for an audit client and provides a non-assurance service to the audit client, the provisions of paragraphs 290.154 to 290.226 shall be complied with, subject to paragraphs 290.504 to 290.507.
## SECTION 291

### INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

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Section 291

291.1 This section addresses independence requirements for assurance engagements that are not audit or review engagements. Independence requirements for audit and review engagements are addressed in Section 290 (refer to paragraphs 290.1 – 290.3). If the assurance client is also an audit or review client, the requirements in Section 290 also apply to the firm, network firms and members of the audit or review team. (refer to paragraphs 290.1 – 290.3). In such situations additional compliance with this Section is not required. In certain circumstances involving assurance engagements where the assurance report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in paragraphs 291.21 to 291.27.

291.2 Assurance engagements are designed to enhance intended users’ degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance Engagements (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Assurance Engagements (ISAEs) apply. For a description of the elements and objectives of an assurance engagement, refer to the Assurance Framework.

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

A Conceptual Framework Approach to Independence

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

291.5 Independence comprises:

(a) Independence of Mind

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

(b) Independence in Appearance

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

291.6 The conceptual framework approach shall be applied by professional accountants to:

(a) Identify threats to independence;
(b) Evaluate the significance of the threats identified; and
(c) Apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level.

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

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

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

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

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

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

Assurance Engagements

As further explained in the Assurance Framework, in an assurance engagement the 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.

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 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\(^3\) or CoCo\(^4\) (criteria), to internal control, a process (subject matter).

Assurance engagements may be assertion-based or direct reporting. In either case, they involve three separate parties: a professional accountant in public practice, a responsible party and intended users.

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\(^3\) “Internal Control—Integrated Framework” The Committee of Sponsoring Organisations of the Treadway Commission.

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

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

**Assertion-Based Assurance Engagements**

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

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

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

**Direct Reporting Assurance Engagements**

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

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5 See paragraphs 290.13 to 290.24 for guidance on what constitutes a network firm.
Reports that Include a Restriction on Use and Distribution

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

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

291.23 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 291.25 to 291.27 do not change the requirement to apply the provisions of paragraphs 291.1 to 291.156 to that assurance engagement. If the firm also issues an audit report, whether or not it includes a restriction on use and distribution, for the same client, the provisions of Section 290 shall apply to that audit engagement.

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

291.25 When the conditions set out in paragraphs 291.21 and 291.22 are met, the relevant provisions set out in paragraphs 291.104 to 291.132 apply to all members of the engagement team, and their immediate and close family members. In addition, a determination shall be made as to whether threats to independence are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, including those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

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

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

An evaluation shall also be made, by reference to the provisions set out in paragraphs 291.104 to 291.132, of any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, including those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

291.26 Even though the conditions set out in paragraphs 291.21 to 291.22 are met, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such a financial interest. In addition, the firm shall comply with the other applicable provisions of this section described in paragraphs 291.112 to 291.156.
An evaluation shall also be made of any threats that the firm has reason to believe are created by network firm interests and relationships.

**Multiple Responsible Parties**

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

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

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

**Documentation**

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

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

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

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

**Engagement Period**

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

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

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

- Not including personnel who provided the non-assurance service as members of the assurance team;
- Having a professional accountant review the assurance and non-assurance work as appropriate; or
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

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

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

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

Breach of a Provision of this Section

291.33 When a breach of a provision of this section is identified, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The firm shall determine whether action can be taken that satisfactorily addresses the consequences of the breach. In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the firm’s objectivity would be compromised such that the firm is unable to issue an assurance report.

291.34 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate, and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.

291.35 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with 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.

291.36 If the party that engaged the firm or those charged with governance, as appropriate, do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.
291.37 The firm shall document the breach, the actions taken, key decisions made and all the matters discussed with the party that engaged the firm or those charged with governance. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm’s professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.

Paragraphs 291.38 to 291.99 are intentionally left blank.

Application of the Conceptual Framework Approach to Independence

291.100 Paragraphs 291.104 to 291.156 describe specific circumstances and relationships that create or may create threats to independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and identify certain situations where no safeguards could reduce the threats to an acceptable level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence. The firm and the members of the assurance team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.11 to 200.14 can be applied when necessary to eliminate the threats to independence or reduce them to an acceptable level.

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

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

291.103 Paragraphs 291.104 to 291.119 contain references to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Financial Interests

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

(a) The role of the person holding the financial interest,
(b) Whether the financial interest is direct or indirect, and
(c) The materiality of the financial interest.

291.105 Financial interests may be held through an intermediary (for example, a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.
291.106 If a member of the assurance team, a member of that individual's immediate family, or a firm has a direct financial interest or a material indirect financial interest in the assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the assurance team; a member of that individual’s immediate family member; or the firm.

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

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

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

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

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

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

(a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;
(b) The interest in the assurance client held by the trust is not material to the trust;
(c) The trust is not able to exercise significant influence over the assurance client; and
(d) The trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the assurance client.

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

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

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

- The firm’s organisational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the assurance team.
The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

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

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

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

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

**Loans and Guarantees**

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

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

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

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

291.116 Similarly, if the firm, or a member of the assurance team, or a member of that individual’s immediate family, makes or guarantees a loan to an assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level.

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

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

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

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

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

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

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

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

**Family and Personal Relationships**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The nature of the relationship between the individual and the member of the assurance team;
- The position the individual holds with the client; and
- The role of the professional on the assurance team.
The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

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

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

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

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

- Structuring the partner’s or employee’s responsibilities to reduce any potential influence over the assurance engagement; or
- Having a professional accountant review the relevant assurance work performed.

Employment with an Assurance Client

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

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

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

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

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

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

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

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

Recent Service with an Assurance Client

291.130 Self-interest, self-review or familiarity threats may be created if a member of the assurance team has recently served as a director, officer, or employee of the assurance client. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client.

291.131 If, during the period covered by the assurance report, a member of the assurance team had served as director or officer of the assurance client, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the assurance team.

291.132 Self-interest, self-review or familiarity threats may be created if, before the period covered by the assurance report, a member of the assurance team had served as director or officer of the assurance client, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement. The existence and significance of any threats will depend on factors such as:
• The position the individual held with the client;
• The length of time since the individual left the client; and
• The role of the professional on the assurance team.

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

Serving as a Director or Officer of an Assurance Client

291.133 If a partner or employee of the firm serves a director or officer of an assurance client, the self-review and self-interest threats would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an assurance client.
The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

If a partner or employee of the firm serves as Company Secretary for an assurance client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level. Despite paragraph 291.133, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

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

Long Association of Senior Personnel with an Assurance Client

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

- How long the individual has been a member of the assurance team;
- The role of the individual on the assurance team;
- The structure of the firm;
- The nature of the assurance engagement;
- Whether the client’s management team has changed; and
- Whether the nature or complexity of the subject matter information has changed.

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

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

Provision of Non-assurance Services to an Assurance Client

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

When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

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

291.141 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.

291.142 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. 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.
- Control or management of 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 or maintaining internal controls.

291.143 In providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. If the firm assumes a management responsibility as part of any other services 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.

291.144 When providing services that are related to the subject matter or subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that client management makes all judgements and decisions relating to the subject matter or subject matter information of the assurance engagement that are the responsibility of management. This includes ensuring that the client’s management:

- 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 the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client’s purpose; and
- Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Other Considerations

291.145 Threats to independence may be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, an evaluation of the significance of the firm’s involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level can be reduced to an acceptable level by the application of safeguards.
291.146 A self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

291.147 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement, the firm shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

Fees

Fees—Relative Size

291.148 When the total fees from an assurance client represent a large proportion of the total fees of the firm expressing the conclusion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

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

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

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

291.149 A self-interest or intimidation threat is also created when the fees generated from an assurance client represent a large proportion of the revenue from an individual partner’s clients. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional professional accountant who was not a member of the assurance team review the work or otherwise advise as necessary.

Fees—Overdue

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

Contingent Fees

291.151 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. For the purposes of this section, fees are not regarded as being contingent if established by a court or other public authority.
A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an assurance engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not enter into any such fee arrangement.

A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of a non-assurance service provided to an assurance client may also create a self-interest threat. If the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement, no safeguards could reduce the threat to an acceptable level. Accordingly, such arrangements shall not be accepted.

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

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

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

- Having a professional accountant review the relevant assurance work or otherwise advise as necessary; or
- Using professionals who are not members of the assurance team to perform the non-assurance service.

Gifts and Hospitality

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

A professional accountant in public practice is reminded of the requirements of the Bribery Act 2010.

Actual or Threatened Litigation

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

- The materiality of the litigation; and
- Whether the litigation relates to a prior assurance engagement.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:
• If the litigation involves a member of the assurance team, removing that individual from the assurance team; or

• Having a professional review the work performed.

If such safeguards do not reduce the threats to an acceptable level, the only appropriate action is to withdraw from, or decline, the assurance engagement.
Interpretation 2005–01 (Revised July 2009 to conform to changes resulting from the IESBA’s project to improve the clarity of the Code)

Application of Section 291 to Assurance Engagements that are Not Financial Statement Audit Engagements

This interpretation provides guidance on the application of the independence requirements contained in Section 291 to assurance engagements that are not financial statement audit engagements.

This interpretation focuses on the application issues that are particular to assurance engagements that are not financial statement audit engagements. There are other matters noted in Section 291 that are relevant in the consideration of independence requirements for all assurance engagements. For example, paragraph 291.3 states that an evaluation shall be made of any threats the firm has reason to believe are created by a network firm’s interests and relationships. It also states that when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm’s independence of the client, the assurance team shall include the related entity when evaluating threats to independence and when necessary applying safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board, in an assurance engagement, the 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.

Assertion-Based Assurance Engagements

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

In an assertion-based assurance engagement independence is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

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

Direct Reporting Assurance Engagements

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

In a direct reporting assurance engagement independence is required from the responsible party, which is responsible for the subject matter.

Multiple Responsible Parties

In both assertion-based assurance engagements and direct reporting assurance engagements there may be several responsible parties. For example, a public accountant in public practice may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based assurance engagement where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement, where there is no assertion and there may or may not be a written representation from the newspapers.
In such engagements, when determining whether it is necessary to apply the provisions in Section 291 to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This will take into account:

(a) The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and

(b) The degree of public interest that is associated with the engagement.

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

**Example**

The following example has been developed to demonstrate the application of Section 291. It is assumed that the client is not also a financial statement audit client of the firm, or a network firm.

A firm is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the professional accountant in public practice determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

<table>
<thead>
<tr>
<th>Company</th>
<th>Proven oil reserves thousands of barrels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 1</td>
<td>5,200</td>
</tr>
<tr>
<td>Company 2</td>
<td>725</td>
</tr>
<tr>
<td>Company 3</td>
<td>3,260</td>
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<td>Company 4</td>
<td>15,000</td>
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<td>Company 5</td>
<td>6,700</td>
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<td>Company 6</td>
<td>39,126</td>
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<td>Company 7</td>
<td>345</td>
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<td>Company 8</td>
<td>175</td>
</tr>
<tr>
<td>Company 9</td>
<td>24,135</td>
</tr>
<tr>
<td>Company 10</td>
<td>9,635</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>104,301</strong></td>
</tr>
</tbody>
</table>
The engagement could be structured in differing ways:

Assertion-Based Engagements

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

Direct Reporting Engagements

D1 Each company measures the reserves and provides the firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

D2 The firm directly measures the reserves of some of the companies.

Application of Approach

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

There are several responsible parties in this engagement (Companies 1–10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level. This will take into account factors such as:

- The materiality of the company’s proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement (paragraph 291.28).

For example, Company 8 accounts for 0.17% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties that would be considered to be the assurance client (paragraph 291.28).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

The firm shall be independent of the entity that measures the reserves and provides an assertion to the firm and to intended users (paragraph 291.19). That entity is not responsible for the subject matter and so an evaluation shall be made of any threats the firm has reason to believe are created by interests/relationships with the party responsible for the subject matter (paragraph 291.19). There are several parties responsible for the subject matter in this engagement (Companies 1–10). As discussed in example A1 above, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level.

D1 Each company provides the firm with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1–10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level. This will take into account factors such as:

- The materiality of the company’s proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement (paragraph 291.28).
For example, Company 8 accounts for 0.17% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm shall be independent of those responsible parties that would be considered to be the assurance client (paragraph 291.28).

D2 The firm directly measures the reserves of some of the companies.

The application is the same as in example D1.
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SECTION 300: INTRODUCTION

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

Professional accountants in business shall also read Part A which sets out the fundamental principles and conceptual framework that professional accountants are required to adhere to. It may also be helpful for professional accountants in business to refer to other parts of this Code in relevant circumstances: for example, Sections 221, ‘Corporate Finance Advice’, and 241, ‘Agencies and Referrals’.

300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organisations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

Professional accountants in business are engaged in an executive or non-executive capacity in such areas as commerce, industry, the public and service sectors (including public sector bodies), education, the not for profit sector, regulatory bodies or professional bodies.

300.3 A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organisation. The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.

Professional accountants are reminded that this Code applies to all their professional and business activities, with and without reward.

300.4 A professional accountant in business has a responsibility to further the legitimate aims of the accountant's employing organisation. This Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.

300.5 A professional accountant in business may hold a senior position within an organisation. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organisation that emphasizes the importance that senior management places on ethical behaviour.

300.6 A professional accountant in business shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

**Fundamental Principles**

300.6A **Moral courage**

In order to ensure compliance with the fundamental principles, an underpinning qualitative characteristic required of the professional accountant is the ‘courage’ to act morally. ‘Courage’ for the professional accountant is the need to act in accordance with the fundamental principles, especially in situations where there is a risk of suffering adverse personal consequences.
There is a need for the professional accountant to confront ethical dilemmas with courage. When facing an ethical dilemma, the professional accountant needs to have the courage to acknowledge the dilemma, to make a reasoned judgement as to the ethical action required to resolve the dilemma, and then to act accordingly.

A professional accountant shall comply with the following fundamental principles:

<table>
<thead>
<tr>
<th>(a) Integrity</th>
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<tr>
<td>To be straightforward and honest in all professional and business relationships.</td>
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<th>(b) Objectivity</th>
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<tr>
<td>To not allow bias, conflict of interest or undue influence of others to override professional or business judgements.</td>
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<th>(c) Professional Competence and Due Care</th>
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<td>To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.</td>
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<th>(d) Confidentiality</th>
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<tr>
<td>To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.</td>
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<th>(e) Professional Behaviour</th>
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<tr>
<td>To comply with relevant laws and regulations and avoid any conduct that discredits the profession.</td>
</tr>
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</table>

300.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:

(a) Self-interest;
(b) Self-review;
(c) Advocacy;
(d) Familiarity; and
(e) Intimidation.

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

300.8 Examples of circumstances that may create self-interest threats for a professional accountant in business include:

- Holding a financial interest in, or receiving a loan or guarantee from the employing organisation.
- Participating in incentive compensation arrangements offered by the employing organisation.
- Inappropriate personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organisation.
300.9 An example of a circumstance that creates a self-review threat for a professional accountant in business is determining the appropriate accounting treatment for a business combination after performing the feasibility study that supported the acquisition decision.

300.10 When furthering the legitimate goals and objectives of their employing organisations, professional accountants in business may promote the organisation’s position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

300.11 Examples of circumstances that may create familiarity threats for a professional accountant in business include:

- Being responsible for the employing organisation’s financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity’s financial reporting.
- Long association with business contacts influencing business decisions.
- Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.

300.12 Examples of circumstances that may create intimidation threats for a professional accountant in business include:

- Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
- A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.

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

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.14 of Part A of this Code.

300.14 Safeguards in the work environment include:

- The employing organisation’s systems of corporate oversight or other oversight structures.
- The employing organisation’s ethics and conduct programs.
- Recruitment procedures in the employing organisation emphasizing the importance of employing high caliber competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
• Timely communication of the employing organisation’s policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.

• Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organisation any ethical issues that concern them without fear of retribution.

• Consultation with another appropriate professional accountant.

300.15 In circumstances where a professional accountant in business believes that unethical behaviour or actions by others will continue to occur within the employing organisation, the professional accountant in business may consider obtaining legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant in business may conclude that it is appropriate to disassociate from the task and/or resign from the employing organisation.

300.16 To assist professional accountants to determine an appropriate course of action when faced with a situation which could threaten their compliance with the fundamental principles the following sections (potential conflicts, preparation and reporting of information; acting with sufficient expertise; financial interests; and inducements) give examples of specific areas of activity which could give rise to ethical dilemmas and the action which could be taken in response. This is not a comprehensive list of examples but aims to cover the key areas most likely to be encountered by professional accountants. Illustrative case studies of how the guidance might be applied in example situations can be found at www.icas.com. (https://www.icas.com/ethics/ethics-and-the-power-of-one)

300.17 Professional accountants who are in doubt as to their ethical position may seek guidance from the following sources, available to all members of the Institute:

- Members with an ethical query (other than audit ethics) should contact the Institute at ethicalenquiries@icas.com or by telephone on +44 (0)131 347 0271.

- Members with a query relating to audit ethics should contact the Accounting and Auditing department by email: accountingandauditing@icas.com
SECTION 310: CONFLICTS OF INTEREST

310.1 A professional accountant in business may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The 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 interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict.

A party may include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgement.

310.2 Examples of situations in which conflicts of interest may arise include:

- Serving in a management or governance position for two employing organisations and acquiring confidential information from one employing organisation that could be used by the professional accountant to the advantage or disadvantage of the other employing organisation.
- Undertaking a professional activity for each of two parties in a partnership employing the professional accountant to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the entity employing the professional accountant who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the accountant’s employing organisation when an immediate family member of the professional accountant could benefit financially from the transaction.
- Serving in a governance capacity in an employing organisation that is approving certain investments for the company where one of those specific investments will increase the value of the personal investment portfolio of the professional accountant or an immediate family member.

310.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in business shall exercise professional judgement and be alert to all interests and relationships that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude might compromise compliance with the fundamental principles.

310.4 When addressing a conflict of interest, a professional accountant in business is encouraged to seek guidance from within the employing organisation or from others, such as a professional body, legal counsel or another professional accountant. When making disclosures or sharing information within the employing organisation and seeking guidance of third parties, the professional accountant shall remain alert to the fundamental principle of confidentiality.

310.5 If the threat created by a conflict of interest is not at an acceptable level, the professional accountant in business shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the professional accountant shall decline to undertake or discontinue the professional activity that would result in the conflict of interest; or shall terminate the relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.
In identifying whether a conflict of interest exists or may be created, a professional accountant in business shall take reasonable steps to determine:

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

The nature of the activities and the relevant interests and relationships may change over time. The professional accountant shall remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

If a conflict of interest is identified, the professional accountant in business shall evaluate:

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

The professional accountant in business shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following safeguards may be appropriate:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.
- Withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.
- Consulting with third parties, such as the Institute, legal counsel or another professional accountant.

Informal discussions with fellow professional accountants in business or in practice may assist in clarifying the steps needed to be taken.

In addition, it is generally necessary to disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organisation and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in business undertaking the professional activity. In certain circumstances, consent may be implied by a party’s conduct where the professional accountant has sufficient evidence to conclude that 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.

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

A professional accountant in business may encounter other threats to compliance with the fundamental principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organisation or financial, business or personal relationships that close or immediate family members of the professional accountant have with the employing organisation. Guidance on managing such threats is covered by Sections 320 and 340 of the Code.
SECTION 320: PREPARATION AND REPORTING OF INFORMATION

320.1 Professional accountants in business are often involved in the preparation and reporting of information that may be either made public or used by others inside or outside the employing organisation. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management's discussion and analysis, and the management letter of representation provided to the auditors during the audit of the entity's financial statements. A professional accountant in business shall prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.

320.2 A professional accountant in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organisation shall be satisfied that those financial statements are presented in accordance with the applicable financial reporting standards.

320.3 A professional accountant in business shall take reasonable steps to maintain information for which the professional accountant in business is responsible in a manner that:

(a) Describes clearly the true nature of business transactions, assets, or liabilities;
(b) Classifies and records information in a timely and proper manner; and
(c) Represents the facts accurately and completely in all material respects.

320.4 Threats to compliance with the fundamental principles, for example, self-interest or intimidation threats to integrity, objectivity or professional competence and due care, are created where a professional accountant in business is pressured (either externally or by the possibility of personal gain) to prepare or report information in a misleading way or to become associated with misleading information through the actions of others.

Accordingly, professional accountants shall not be associated with reports, returns, communications or other information where they believe that the information:

- Contains a materially false or misleading statement;
- Contains statements or information furnished recklessly;
- Omits or obscures information required to be included where such omission or obscurity would be misleading.

In relation to accounts prepared under ‘The Small Companies (Micro-Entities’ Accounts) Regulations 2013 or equivalent for other types of entities, accounts which satisfy the ‘true and fair’ view requirement of this Statutory Instrument cannot be held to be misleading.

320.5 The significance of such threats will depend on factors such as the source of the pressure and the corporate culture within the employing organisation. The professional accountant in business shall be alert to the principle of integrity, which imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Where the threats arise from compensation and incentive arrangements, the guidance in section 340 is relevant.

320.6 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards include consultation with superiors within the employing organisation, the audit committee or those charged with governance of the organisation, or with the Institute.

320.7 Where it is not possible to reduce the threat to an acceptable level, a professional accountant in business shall refuse to be or remain associated with information the professional accountant determines is misleading. A professional accountant in business may have been unknowingly associated with misleading information. Upon becoming aware of this, the professional accountant in business shall take steps to be disassociated from that information. In determining whether there is a requirement to report the circumstances outside the organisation, the professional accountant in business may consider obtaining legal advice. In addition, the professional accountant may consider whether to resign.
SECTION 330: ACTING WITH SUFFICIENT EXPERTISE

330.1 The fundamental principle of professional competence and due care requires that a professional accountant in business only undertake significant tasks for which the professional accountant in business has, or can obtain, sufficient specific training or experience. A professional accountant in business shall not intentionally mislead an employer as to the level of expertise or experience possessed, nor shall a professional accountant in business fail to seek appropriate expert advice and assistance when required.

330.2 Circumstances that create a threat to a professional accountant in business performing duties with the appropriate degree of professional competence and due care include having:

- Insufficient time for properly performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties properly.
- Insufficient experience, training and/or education.
- Inadequate resources for the proper performance of the duties.

330.3 The significance of the threat will depend on factors such as the extent to which the professional accountant in business is working with others, relative seniority in the business, and the level of supervision and review applied to the work. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Obtaining additional advice or training.
- Ensuring that there is adequate time available for performing the relevant duties.
- Obtaining assistance from someone with the necessary expertise.
- Consulting, where appropriate, with:
  - Superiors within the employing organisation;
  - Independent experts; or
  - The Institute

330.4 When threats cannot be eliminated or reduced to an acceptable level, professional accountants in business shall determine whether to refuse to perform the duties in question. If the professional accountant in business determines that refusal is appropriate, the reasons for doing so shall be clearly communicated.
340.1 Professional accountants in business may have financial interests, including those arising from compensation or incentive arrangements, or may know of financial interests of immediate or close family members, that, in certain circumstances, may create threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price-sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include situations where the professional accountant in business or an immediate or close family member:

- Holds a direct or indirect financial interest in the employing organisation and the value of that financial interest could be directly affected by decisions made by the professional accountant in business.
- Is eligible for a profit-related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant in business.
- Holds, directly or indirectly, deferred bonus share entitlements or share options in the employing organisation, the value of which could be directly affected by decisions made by the professional accountant in business.
- Otherwise participates in compensation arrangements which provide incentives to achieve performance targets or to support efforts to maximize the value of the employing organisation’s shares, for example, through participation in long-term incentive plans which are linked to certain performance conditions being met.

340.2 Self-interest threats arising from compensation or incentive arrangements may be further compounded by pressure from superiors or peers in the employing organisation who participate in the same arrangements. For example, such arrangements often entitle participants to be awarded shares in the employing organisation at little or no cost to the employee provided certain performance criteria are met. In some cases, the value of the shares awarded may be significantly greater than the base salary of the professional accountant in business.

340.3 A professional accountant in business shall not manipulate information or use confidential information for personal gain or for the financial gain of others. The more senior the position that the professional accountant in business holds, the greater the ability and opportunity to influence financial reporting and decision making and the greater the pressure there might be from superiors and peers to manipulate information. In such situations, the professional accountant in business shall be particularly alert to the principle of integrity, which imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships.

340.4 The significance of any threat created by financial interests, shall be evaluated and safeguards applied, when necessary, to eliminate the threat or reduce it to an acceptable level. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied, a professional accountant in business shall evaluate the nature of the interest. This includes evaluating the significance of the interest. What constitutes a significant interest will depend on personal circumstances. Examples of such safeguards include:

- Policies and procedures for a committee independent of management to determine the level or form of remuneration of senior management.
- Disclosure of all relevant interests, and of any plans to exercise entitlements or trade in relevant shares, to those charged with the governance of the employing organisation, in accordance with any internal policies.
• Consultation, where appropriate, with superiors within the employing organisation.
• Consultation, where appropriate, with those charged with the governance of the employing organisation or relevant professional bodies.
• Internal and external audit procedures.
• Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.
SECTION 350: INDUCEMENTS

Receiving Offers

350.1 A professional accountant in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment, and inappropriate appeals to friendship or loyalty.

350.2 Offers of inducements may create threats to compliance with the fundamental principles. When a professional accountant in business or an immediate or close family member is offered an inducement, the situation shall be evaluated. Self-interest threats to objectivity or confidentiality are created when an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behaviour, or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the professional accountant in business or an immediate or close family member.

350.3 The existence and significance of any threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, weighing all the specific facts and circumstances, would consider the inducement insignificant and not intended to encourage unethical behaviour, then a professional accountant in business may conclude that the offer is made in the normal course of business and may generally conclude that there is no significant threat to compliance with the fundamental principles.

350.4 The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in business shall not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards shall be adopted. A professional accountant in business shall evaluate any threats created by such offers and determine whether to take one or more of the following actions:

(a) Informing higher levels of management or those charged with governance of the employing organisation immediately when such offers have been made;

(b) Informing third parties of the offer – for example, the Institute or the employer of the individual who made the offer; a professional accountant in business may however, consider seeking legal advice before taking such a step; and

(c) Advising immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example, as a result of their employment situation; and

(d) Informing higher levels of management or those charged with governance of the employing organisation where immediate or close family members are employed by competitors or potential suppliers of that organisation.

Making Offers

350.5 A professional accountant in business may be in a situation where the professional accountant in business is expected, or is under other pressure, to offer inducements to influence the judgement or decision-making process of an individual or organisation, or obtain confidential information.

350.6 Such pressure may come from within the employing organisation, for example, from a colleague or superior. It may also come from an external individual or organisation suggesting actions or business decisions that would be advantageous to the employing organisation, possibly influencing the professional accountant in business improperly.

350.7 A professional accountant in business shall not offer an inducement to improperly influence professional judgement of a third party.
350.8 Where the pressure to offer an unethical inducement comes from within the employing organisation, the professional accountant shall follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

350.9 A professional accountant in business is reminded of the requirements of the Bribery Act 2010.
SECTION 360: RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Purpose

360.1 A professional accountant in business may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of carrying out professional activities. The purpose of this section is to set out the professional accountant’s responsibilities when encountering such non-compliance or suspected non-compliance, and guide the professional accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the employing organisation, including whether or not it is a public interest entity.

360.2 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, committed by the professional accountant’s employing organisation or by those charged with governance, by management, or by other individuals working for or under the direction of the employing organisation which are contrary to the prevailing laws or regulations.

360.3 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section, for example, anti-money laundering legislation. When encountering such non-compliance or suspected non-compliance, the professional accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party, for example, pursuant to anti-money laundering legislation.

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 fundamental principles of integrity and professional behaviour;

(b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the commission of the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Scope

360.5 This section sets out the approach to be taken by a professional accountant who encounters or is made aware of non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation’s financial statements; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation’s financial statements, but compliance with which may be fundamental to the operating aspects of the employing organisation’s business, to its ability to continue its business, or to avoid material penalties.
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.

Non-compliance may result in fines, litigation or other consequences for the employing organisation that may have a material effect on its financial statements. Importantly, such non-compliance may 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.

A professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the employing organisation, its stakeholders and the general public, is not required to comply with this section with respect to such matters unless other laws or regulations require it.

This section does not address:

(a) Personal misconduct unrelated to the business activities of the employing organisation; and

(b) Non-compliance other than by the employing organisation or those charged with governance, management, or other individuals working for or under the direction of the employing organisation.

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

Responsibilities of the Employing Organisation’s Management and Those Charged with Governance

It is the responsibility of the employing organisation’s management, with the oversight of those charged with governance, to ensure that the employing organisation’s business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the employing organisation or by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the employing organisation.
Responsibilities of Professional Accountants in Business

360.11 Many employing organisations have established protocols and procedures (for example, an ethics policy or internal whistle-blowing mechanism) regarding how non-compliance or suspected non-compliance by the employing organisation should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the professional accountant's employing organisation, the professional accountant shall consider them in determining how to respond to such non-compliance.

360.12 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the professional accountant takes to comply with this section shall be taken on a timely basis, having regard to the professional accountant's understanding of the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or the general public.

Responsibilities of Senior Professional Accountants in Business

360.13 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 organisation's human, financial, technological, physical and intangible resources. Because of their roles, positions and spheres of influence within the employing organisation, there is a greater expectation for them 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 organisation.

A senior professional accountant's attention is drawn to the content of paragraph 360.3.

Obtaining an Understanding of the Matter

360.14 If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall obtain an understanding of the matter, including:

(a) The nature of the act and the circumstances in which it has occurred or may occur;
(b) The application of the relevant laws and regulations to the circumstances; and
(c) The potential consequences to the employing organisation, investors, creditors, employees or the wider public.

360.15 A senior professional accountant is expected to apply knowledge, professional judgement and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional accountant's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may cause, or take appropriate steps to cause, the matter to be investigated internally. The professional accountant may also consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

Addressing the Matter

360.16 If the senior professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, discuss the matter with the professional accountant's immediate superior, if any, to enable a determination to be made as to how the matter should be addressed. If the professional accountant's immediate superior appears to be involved in the matter, the professional accountant shall discuss the matter with the next higher level of authority within the employing organisation.
360.17 The senior professional accountant shall also take appropriate steps to:

(a) Have the matter communicated to those charged with governance to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities;

(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.

360.18 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 organisation’s external auditor, if any, is needed pursuant to the 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

360.19 The senior professional accountant shall assess the appropriateness of the response of the professional accountant’s superiors, if any, and those charged with governance.

360.20 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.

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

360.22 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 matter.
- The pervasiveness of the matter throughout the employing organisation.
- Whether the senior professional accountant continues to have confidence in the integrity of the professional 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 organisation, investors, creditors, employees or the general public.
Examples of circumstances that may cause the senior professional accountant no longer to have confidence in the integrity of the professional accountant’s superiors and those charged with governance include situations where:

- The professional 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 the matter, or authorized the matter to be reported, to an appropriate authority within a reasonable period.

In determining the need for, and nature and extent of any further action needed, the senior professional accountant shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the professional accountant has acted appropriately in the public interest.

Further action by the professional accountant may include:

- Informing the management of the parent entity of the matter if the employing organisation 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 organisation.

Where the senior professional accountant determines that resigning from the employing organisation would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant’s objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and resignation may be the only available course of action.

As consideration of the matter may involve complex analysis and judgements, the senior professional accountant may consider consulting internally, obtaining legal advice to understand the professional accountant’s options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

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.

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 may be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

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

• The employing organisation is promoting a scheme to its clients to assist them in evading taxes.

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, 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.

360.30 If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions.

360.31 In exceptional circumstances, the senior professional accountant may become aware of actual or intended conduct that the professional 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 considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgement and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

Documentation

360.32 In relation to an identified or suspected act of 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 professional accountant’s superiors, if any, and those charged with governance and other parties.

• How the professional accountant’s superiors, if any, and those charged with governance have responded to the matter.

• The courses of action the professional accountant considered, the judgements made and the decisions that were taken.

• How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 360.21.

The professional accountant is encouraged to consider whether there is a need for any such documentation to be filed separately.
Responsibilities of Professional Accountants Other Than Senior Professional Accountants in Business

360.33 If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

A professional accountant’s attention is drawn to the content of paragraph 360.3.

360.34 The professional accountant is expected to apply knowledge, professional judgement and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional accountant’s role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

360.35 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, inform an immediate superior to enable the superior to take appropriate action. If the professional accountant’s immediate superior appears to be involved in the matter, the professional accountant shall inform the next higher level of authority within the employing organisation.

360.36 In exceptional circumstances, the professional accountant may decide that disclosure of the matter to an appropriate authority is an appropriate course of action. If the professional accountant does so pursuant to paragraph 360.29, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions.

Documentation

360.37 In relation to an identified or suspected act of 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 professional accountant’s superior, management and, where applicable, those charged with governance and other parties.
- How the professional accountant’s superior has responded to the matter.
- The courses of action the professional accountant considered, the judgements made and the decisions that were taken.

The professional accountant is encouraged to consider whether there is a need for any such documentation to be filed separately.
SECTION 370: ACTING AS AN INDEPENDENT EXAMINER FOR A UK CHARITY

370.1 A professional accountant in business acting as an independent examiner for a charity which is registered with a UK Charity regulator (i.e. The Charity Commission for England and Wales, The Office of the Scottish Charity Regulator (OSCR) or the Charity Commission for Northern Ireland) shall comply with the independence requirements of the respective regulator and is specifically scoped out of the requirements of Section 290 of this Code.

370.2 A professional accountant in business acting as an independent examiner for a charity which is excepted from charity registration in England and Wales shall comply with the independence requirements of the Charity Commission for England and Wales and is specifically scoped out of the requirements of Section 290 of this Code.
Effective Date

This Code is effective on 1 November 2017; early adoption is permitted.
DEFFINITIONS FOR PARTS A, B AND C

In this Code of Ethics for Professional Accountants, the following expressions have the following meanings assigned to them:

- **Acceptable level**: A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

- **Advertising**: The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.

- **Affiliate**: A person granted regulated non-member status by the Institute under its rules and regulations.

- **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 may 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 which 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**: (a) All members of the engagement team for the assurance engagement;

  (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:

  (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;

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

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

- **Audit client**: An entity in respect of which a firm conducts an audit engagement. When the client is 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.

- **Audit committee**: Those charged with governance. This may be a separate committee or the full Board.
Audit engagement
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 International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

Audit team
(a) All members of the engagement team for the audit engagement;
(b) All others within a firm who can directly influence the outcome of the audit engagement, including:
(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
(c) All those within a network firm who can directly influence the outcome of the audit engagement.

Close family
A parent, child or sibling who is not an immediate family member.

Contingent fee
A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

Direct financial interest
A financial interest:
(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 may vary from jurisdiction to jurisdiction.

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 quality control review
A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgements the engagement team made and the conclusions it reached in formulating the report.

Engagement team
All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

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), Using the Work of Internal Auditors.

ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.
Existing accountant
A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, 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 organisation 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 member firm;
(b) An entity that controls a member firm, through ownership, management or other means; and
(c) An entity controlled by a member firm, through ownership, management or other means.

Historical financial information
Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family
A spouse (or equivalent) or dependent.

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

Indirect financial interest
A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Key audit partner
The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions.
Listed entity
An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

Loan
A loan is a sum of money lent, whether direct or through a third party, with the intention that it will be repaid with or without interest.

Member
A member of the Institute.

Member firm
This means, for the purposes of this Code:
1) A member engaged in public practice as a sole practitioner or;
2) A partnership engaged in public practice of which more than 50 per cent of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership is held by members; or
3) A limited liability partnership engaged in public practice of which more than 50 per cent of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership is held by members; or
4) Any body corporate (other than a limited liability partnership) engaged in public practice of which:
   (a) 50 per cent or more of the directors are members; and
   (b) More than 50 per cent of the nominal value of the voting shares is held by members; and
   (c) More than 50 per cent of the aggregate in nominal value of the voting and non-voting shares is held by members.

Network
A larger structure:
(a) That is aimed at co-operation; and
(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm
A firm or entity that belongs to a network.

Office
A distinct sub-group, whether organized on geographical or practice lines.

Partner or Principal
References to a partner or principal of a firm include the following:
- A partner/principal;
- A sole-practitioner;
- A director of a corporate firm;
- A member of a limited liability partnership;
- An employee of a corporate firm who is:
  - A responsible individual within the meaning of the Audit Regulations; or
  - A licensed Insolvency Practitioner; or
  - Defined as such in circumstances determined by Council.
Professional accountant

An individual who is a member of an IFAC member body.

Professional accountant in business

A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.

A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer, or another working for one or more employing organisations.

The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.

Professional accountant in public practice

A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.

Professional activity

An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting and financial management.

Professional services

Professional activities performed for clients.

Public interest entity

(a) A listed entity; and
(b) An entity;
   (i) Defined by regulation or legislation as a public interest entity; or
   (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 may be promulgated by any relevant regulator, including an audit regulator.

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.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review engagement</td>
<td>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 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.</td>
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<tr>
<td>Review team</td>
<td>(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.</td>
</tr>
<tr>
<td>Special purpose financial statements</td>
<td>Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</td>
</tr>
<tr>
<td>Those charged with governance</td>
<td>The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.</td>
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