

**CODE OF PROFESSIONAL CONDUCT OF THE SOUTH AFRICAN
INSTITUTE OF CHARTERED ACCOUNTANTS**

2017/2018 Edition

(Effective 1 April 2014)

INTRODUCTION

- The Board of the South African Institute of Chartered Accountants (“SAICA”) has adopted the International Ethics Standards Board for Accountants’ (“IESBA”) Code of Ethics for Professional Accountants as amended in 2017, in its entirety but have however included additional guidance in Part A to assist in the local application of certain requirements applicable to all Chartered Accountants.
- This document contains the Code of Professional Conduct (“Code”) of SAICA.
- The Code is applicable to all SAICA members and associates and trainee accountants. A contravention of, or failure to comply with any requirements of the Code, may be regarded as an offence in terms of section 34.10 of the SAICA By-laws and as such may be investigated and if appropriate the member/associate/trainee may be found guilty and may be liable for penalties as described in the By-laws.
- The Code also conforms to the Independent Regulatory Board for Auditors (IRBA) Code of Professional Conduct for Registered Auditors.
- This Code is based on Parts A, B and C of the Code of Professional Accountants of the International Ethics Standards Board of Accountants (the “IESBA Code”) published by the International Federation of Accountants (IFAC) in 2017 and is used with the permission of IFAC.
- To the extent that the Code contains provisions not contained in the IESBA Code of Ethics for Professional Accountants, insertions in the Code are italicised and underlined.

APPLICATION

- In Part B, reference to audit services shall be applicable only to Chartered Accountants who are registered with the Independent Regulatory Board for Auditors as Registered Auditors.
- Reference to the term Chartered Accountant throughout the Code shall also refer to associate/trainee accountant to the extent that the context applies.

CHANGES OF SUBSTANCE FROM THE 2016/2017 EDITION

Code of Professional Conduct of the South African Institute of Chartered Accountants

This document replaces the 2016/2017 edition of the Code of Professional Conduct of the South African Institute of Chartered Accountants.

Changes

The IESBA has not published an updated Code but released the Close-off: Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client with an effective date for audits of financial statements for periods beginning on or after December 15, 2018. Paragraphs 291.137 to 291.141 are effective as of December 15, 2018. Early adoption is permitted. Certain transitional provisions are also included.

As these amendments become effective for audits of financial statements for periods beginning on or after December 15, 2018 these amendments has been included in the 2017/2018 edition of the SAICA Code of Professional Conduct.

The SAICA Code of Professional Conduct was also updated with the changes to the IRBA Code dealing with Custody of Client Assets.

Changes to the Code Issued Subsequent to January 2017 and Exposure Drafts

The IESBA is currently undertaking a project to comprehensively review the structure and drafting of the IESBA *Code of Ethics for Professional Accountants*TM (the Code) to enhance its understandability and usability, thereby facilitating its adoption, effective implementation, consistent application, and enforcement.

Subject to completion of the restructured Code by December 2017 and approval by the Public Interest Oversight Board (PIOB), the IESBA anticipates issuing the restructured Code by the end of March 2018.

The IESBA published the following documents in 2017:

- Structure & Safeguards Phase 1 Revisions to the IESBA Code – Agreed in Principle
- Close-Off: Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles

These documents were developed and approved by the International Ethics Standards Board for Accountants® (IESBA®). They have been prepared in accordance with the current structure and drafting conventions of the *Code of Ethics for Professional Accountants*TM (the Code). The documents will be used as a basis for preparing a restructured version in accordance with the new structure and drafting conventions for the Code. The formal release will be the restructured version.

For information on recent developments and to obtain final pronouncements issued subsequent to January 2017, or outstanding Exposure Drafts, visit the IESBA's website at www.ethicsboard.org.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS
CONTENTS

	Page
DEFINITIONS	5
PART A: GENERAL APPLICATION OF THE CODE	14
100 Introduction and Fundamental Principles	14
110 Integrity	19
120 Objectivity	20
130 Professional Competence and Due Care	20
140 Confidentiality	21
150 Professional Behaviour	22
PART B: <u>CHARTERED ACCOUNTANTS</u> IN PUBLIC PRACTICE	24
200 Introduction	24
210 Professional Appointment	28
220 Conflicts of Interest	32
225 Responding to Non-Compliance with Laws and Regulations	36
230 Second Opinions	47
240 Fees and Other Types of Remuneration	48
250 Marketing Professional Services	49
260 Gifts and Hospitality	50
270 Custody of Client Assets	50
280 Objectivity—All Services	52
290 Independence—Audit and Review Engagements	53
291 Independence – Other Assurance Engagements	103
Interpretation 2005-01	125
PART C—<u>CHARTERED ACCOUNTANTS</u> IN BUSINESS	129
300 Introduction	129
310 Conflicts of Interest	132
320 Preparation and Reporting of Information	134
330 Acting with Sufficient Expertise	135
340 Financial Interests, Compensation, and Incentives Linked to Financial Reporting and Decision Making	136
350 Inducements	138
360 Responding to Non-Compliance with Laws and Regulations	139

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

EFFECTIVE DATE	146
CHANGES TO THE CODE	
270 Custody of client assets	147
290 Independence – audit and review engagements	148
291 Independence – other assurance engagements	153

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

DEFINITIONS

For the purpose of this Code the terms below have the meanings assigned to them and any reference to any section in this Code is a reference to the corresponding section in the Act.

In this Code, the following expressions or terms have the 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 <u>chartered accountant</u> at that time, that compliance with the fundamental principles is not compromised.
<u>Act</u>	<u>The Auditing Profession Act, 2005 (Act No. 26 of 2005).</u>
Advertising	The communication to the public of information as to the services or skills provided by <u>chartered accountants</u> with a view to procuring professional business.
<u>Associate</u>	<u>Means a person who has been admitted and registered as an associate general accountant (AGA) with the Institute and therefore entitled to use the designation “Associate General Accountant” or “Associate General Accountant (South Africa)” or the initials “AGA (SA)”.</u>
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 <u>chartered accountant</u> 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.)

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 engagement	A reasonable assurance engagement in which a <i>chartered accountant</i> 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

<u>Chartered accountant</u>	<u>Means a chartered accountant registered as such with the Institute and therefore entitled to use the designation “Chartered Accountant”, “Geoktrooierde Rekenmeester”, Chartered Accountant (South Africa)”, “Geoktrooierde Rekenmeester (Suid-Afrika)”, “Chartered Accountant (SA)” OR “Geoktrooierde Rekenmeester (SA)”, or the initials “CA”, “GR”, “CA(SA)” or “GR(SA)”.</u>
<u>Chartered accountant in public practice</u>	<u>A chartered accountant that provides professional services.</u>
<u>Client account</u>	<u>A bank account which is used solely for the banking of clients’ monies.</u>
<u>Client monies</u>	<u>Any monies, including documents of title to money such as bills of exchange and promissory notes, as well as documents of title which can be converted into money such as bearer bonds, received by a chartered accountant to be held or paid out on the instruction of the person from whom or on whose behalf they are received.</u>
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 judgments the engagement team made and the conclusions it reached in formulating the report.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 a network firm. The term “engagement team” also excludes the individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>¹.
Existing accountant	A <u>chartered accountant</u> 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 organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the <u>chartered accountant</u> in obtaining sufficient appropriate evidence.
Financial interest	An interest in 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 <u>chartered accountant</u> 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.

¹ 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Firm	(a) <u>A partnership, company or sole proprietor referred to in section 38²;</u> (b) An entity that controls <u>the parties in (a)</u>, through ownership, management or other means; and (c) An entity controlled by <u>the parties in (a)</u>, 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 judgment, 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.
<u>Institute</u>	<u>Means the South African Institute of Chartered Accountants (SAICA).</u>
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" 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 recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

² Section 1 of the Act v. "firm"

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

<u>Member</u>	<u>Means a chartered accountant.</u>
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.
Professional Activity	Professional Activity: An activity requiring accountancy or related skills undertaken by a <u>chartered accountant</u> , including accounting, auditing, <u>review, other assurance and related services</u> , taxation, management consulting, and financial management

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Professional services

- (a) Taxation services:
 - (i) Tax return preparation and submission,
 - (ii) Tax calculations for the purpose of preparing accounting entries,
 - (iii) Tax planning and other tax advisory services, and
 - (iv) Assistance in the resolution of tax disputes;
- (b) Advisory services:
 - (i) Accounting advisory and financial management advisory services: accounting support, conversion services for new and revised accounting standards, financial modeling and project management;
 - (ii) Business performance services: business effectiveness, people and change management, operational and business finance;
 - (iii) Internal audit: risk and compliance services, review and monitoring of internal controls, risk management, compliance services, corporate governance and audit committee advisory services;
 - (iv) Corporate finance services: mergers and acquisitions, valuations, infrastructure financing, debt and capital markets, due diligence reviews, transaction services and designated advisor services to listed companies;
 - (v) Corporate recovery services: liquidation and insolvency administration, curator bonis, administration of deceased estates, judicial management and trusteeships;
 - (vi) Financial risk management services: actuarial services, banking and risk advisory, regulatory and compliance services, technical accounting;
 - (vii) Information technology (IT) Advisory: security, privacy and continuity, enterprise resource planning; information system audit services, IT project advisory, governance and performance;
 - (viii) Forensic services: dispute advisory and resolution, ethics and integrity monitoring, fraud risk management, intellectual property and other investigations and regulatory compliance.

Public practice

The practice of a chartered accountant who places professional services at the disposal of the public for reward, and “practice” has a similar meaning³.

³ Section 1 of the Act v. “public practice”

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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.

Regulatory Board

The Independent Regulatory Board for Auditors established by section 3⁴

- Related entity
- An entity that has any of the following relationships with the client:
- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
 - (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
 - (c) An entity over which the client has direct or indirect control;
 - (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
 - (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.
- Review client
- An entity in respect of which a firm conducts a review engagement.
- Review engagement
- An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a chartered accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the chartered accountant’s attention that causes the chartered accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

⁴ Section 1 of the Act v. “Regulatory Board”

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Review team	(a) All members of the engagement team for the review engagement; and (b) All others within a firm who can directly influence the outcome of the review engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and (c) All those within a network firm who can directly influence the outcome of the review engagement.
Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

PART A—GENERAL APPLICATION OF THE CODE

	Page
Section 100 Introduction and Fundamental Principles	14
Section 110 Integrity.....	19
Section 120 Objectivity.....	20
Section 130 Professional Competence and Due Care.....	20
Section 140 Confidentiality	21
Section 150 Professional Behaviour	22

SECTION 100

Introduction and Fundamental Principles

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a chartered accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a chartered accountant shall observe and comply with this Code. If a chartered accountant is prohibited from complying with certain parts of this Code by law or regulation, the chartered accountant shall comply with all other parts of this Code.
- 100.2 This Code contains three parts. Part A establishes the fundamental principles of professional ethics for chartered accountants and provides a conceptual framework that chartered 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 chartered 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 chartered accountant at that time, that compliance with the fundamental principles is not compromised.
- A chartered accountant shall use professional judgment in applying this conceptual framework.
- 100.3 Part B and C 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 chartered accountants in public practice. Part C applies to chartered accountants in business. Chartered Accountants in public practice may also find Part C relevant to their particular circumstances.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 100.4 The use of the word “shall” in this Code imposes a requirement on the chartered accountant to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code.

Fundamental Principles

- 100.5 A chartered 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 judgments.
 - (c) *Professional Competence and Due Care* – to maintain professional knowledge and skill at the level required to ensure that a client receives competent professional services 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 chartered accountant or third parties.
 - (e) *Professional Behaviour* – to comply with relevant laws and regulations and avoid any conduct that discredits the accountancy profession.

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

Conceptual Framework Approach

- 100.6 The circumstances in which chartered 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 chartered accountant to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists chartered 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 chartered accountant from concluding that a situation is permitted if it is not specifically prohibited.
- 100.7 When a chartered 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 chartered 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 chartered accountant shall exercise professional judgment and take into account whether a reasonable and

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

informed third party, weighing all the specific facts and circumstances available to the chartered 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 chartered accountant shall evaluate any threats to compliance with the fundamental principles when the chartered accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.9 A chartered accountant shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a chartered 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 chartered accountant shall decline or discontinue the specific professional service involved or, when necessary, resign from the engagement (in the case of a chartered accountant in public practice) or the employing organisation (in the case of a chartered accountant in business)
- 100.10 Sections 290 and 291 contain provisions with which a chartered accountant shall comply if the chartered accountant identifies a breach of an independence provision of the Code. If a chartered accountant identifies a breach of any other provision of this Code, the chartered 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 chartered 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 chartered accountant consult with the Regulatory Board or the individual chartered accountant's professional institute.

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 chartered 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 chartered accountant's judgment or behaviour;
 - (b) Self-review threat - the threat that a chartered accountant will not appropriately evaluate the results of a previous judgment made or service performed by the chartered accountant, or by another individual within the

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

chartered accountant's firm, on which the chartered accountant will rely when forming a judgment as part of providing a current service;

- (c) Advocacy threat - the threat that a chartered accountant will promote a client's position to the point that the chartered accountant's objectivity is compromised;
- (d) Familiarity threat - the threat that due to a long or close relationship with a client, a chartered accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat - the threat that a chartered accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the chartered accountant.

Part B and C of this Code explain how these categories of threats may be created for chartered accountants in public practice and chartered accountants in business, respectively. Chartered accountants in public practice may also find Part C relevant to their particular circumstances.

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 legislation or 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 chartered accountant.

100.15 Part B and C of this Code discuss safeguards in the work environment for chartered accountants in public practice and chartered 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 auditing profession, legislation or regulation include:

- Effective, well-publicised complaint systems operated by 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Conflicts of Interest

100.17 A chartered 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 chartered 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 chartered accountant with respect to a particular matter and the interests of a party for whom the chartered 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 chartered accountants in public practice and chartered accountants in business, respectively.

Ethical Conflict Resolution

100.19 A chartered 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) Ethical issues involved;
- (c) Fundamental principles related to the matter in question;
- (d) Established internal procedures; and
- (e) Alternative courses of action.

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

100.21 Where a matter involves a conflict with, or within, an organisation, a chartered 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 chartered accountant to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

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

⁵ Paragraphs 100.23 and 100.24 was replaced with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a chartered accountant shall, unless prohibited by law, refuse to remain associated with the matter creating the conflict. The chartered 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 organization.

Communicating with Those Charged with Governance

100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the chartered 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 chartered accountant or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the chartered accountant or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

100.26⁶In 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 chartered accountant or firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the chartered accountant or firm would otherwise communicate in their governance capacity.

SECTION 110

Integrity

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

110.2 A chartered accountant shall not knowingly be associated with reports, returns, communications or other information where the chartered 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.

⁶ Paragraph 100.26 was added after extant paragraph 100.25. with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

- 110.3 A chartered accountant will be deemed not to be in breach of paragraph 110.2 if the chartered 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 chartered accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.
- 120.2 A chartered accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A chartered accountant shall not perform a professional service if a circumstance or relationship biases or unduly influences the chartered accountant's professional judgment 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 chartered accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients receive competent professional service; and
 - (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.
- 130.2 Competent professional service requires the exercise of sound judgment 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 chartered accountant to develop and maintain the capabilities to perform competently within the professional environment.
- 130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- 130.5 A chartered accountant shall take reasonable steps to ensure that those working under the chartered accountant's authority in a professional capacity have appropriate training and supervision.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 130.6 Where appropriate, a chartered accountant shall make clients, employers or other users of the chartered accountant's professional services aware of the limitations inherent in the services.
- 130.7 A chartered accountant shall not undertake or continue with any engagement which the chartered accountant is not competent to perform, unless the chartered accountant obtains advice and assistance which enables the chartered accountant to carry out the engagement satisfactorily.

SECTION 140

Confidentiality

- 140.1 The principle of confidentiality imposes an obligation on all chartered accountants to refrain from:
- (a) Disclosing outside the firm confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
 - (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- 140.2 A chartered 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.
- 140.3 A chartered accountant shall maintain confidentiality of information disclosed by a prospective client or employer.
- 140.4 A chartered accountant shall maintain confidentiality of information within the firm or employing organisation.
- 140.5 A chartered accountant shall take reasonable steps to ensure that staff under the chartered accountant's control and persons from whom advice and assistance is obtained respect the chartered accountant's duty of confidentiality.
- 140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a chartered accountant and a client. When a chartered accountant acquires a new client, the chartered accountant is entitled to use prior experience. The chartered accountant shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.
- 140.7 ⁷As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the chartered accountant's client or employing organization to the chartered accountant. Nevertheless, the following are circumstances where chartered 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;

⁷ Paragraph 140.7 was replaced by paragraph 140.7 with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (b) Disclosure is required by law, for example:
- (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (i) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
- (i) To comply with the quality review of a member body or professional body;
 - (ii) To respond to an inquiry or investigation by a member body or regulatory body;
 - (iii) To protect the professional interests of a chartered accountant in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethical requirements.
- 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 consents to the disclosure of information by the chartered 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 judgment 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; and
 - Whether the parties to whom the communication is addressed are appropriate recipients.

SECTION 150

Professional Behaviour

- 150.1 ⁸The principle of professional behavior imposes an obligation on all chartered accountants to comply with relevant laws and regulations and avoid any conduct that the chartered 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 chartered accountant at that time, would be likely to conclude adversely affects the good reputation of the profession.
- 150.2 In marketing and promoting themselves and their work, chartered accountants shall not bring the profession into disrepute. Chartered 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

⁸ Paragraph 150.1 was replaced by paragraph 150.1 with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

Multiple firms

150.3 An individual chartered accountant is permitted to be a member of more than one registered firm and some other type of professional firm providing professional services. It is also permissible to practice under different firm names for different offices, provided this does not mislead.

150.4 Individual chartered accountants who are members of registered audit firms as well as being members of other accounting or consulting firms that provide professional services and have individual members who are not chartered accountants, must ensure there is a clear distinction between the different firms and the members thereof, and that they do not unwittingly contravene section 41(2) of the Act, or cause it to be contravened by the members of those other accounting or consulting firms who are not individual chartered accountants.

Signing convention for Reports or Certificates

150.5 A chartered accountant shall not delegate to any person who is not a partner, or fellow director, the power to sign audit, review or other assurance reports or certificates that are required, in terms of any law or regulation, to be signed by the, chartered accountant responsible for the engagement. In specific cases where emergencies of sufficient gravity arise, however, this prohibition may be relaxed, provided the full circumstances giving rise to the need for delegation are reported both to the client of the chartered accountant concerned and to the Regulatory Board, where applicable.

150.6 The individual chartered accountant responsible for the audit, review or other assurance engagement⁹ shall, when signing any audit, review or other assurance report or certificate, reflect the following:

- (a) the individual chartered accountant's full name;
- (b) if not a sole proprietor, the capacity in which they are signing, namely as the 'partner' or 'director';
- (c) the designation 'Chartered accountant' underneath their name; and
- (d) if not set out on the firm's letterhead, the name of the chartered accountant's firm.

⁹ For audit engagements please refer to Section 44(1)(a) of the Act

PART B—CHARTERED ACCOUNTANTS IN PUBLIC PRACTICE

	Page
Section 200 Introduction.....	24
Section 210 Professional Appointment.....	28
Section 220 Conflicts of Interest	32
Section 225 Responding to Non-Compliance with Laws and Regulations	36
Section 230 Second Opinions	47
Section 240 Fees and Other Types of Remuneration	48
Section 250 Marketing Professional Services.....	49
Section 260 Gifts and Hospitality	50
Section 270 Custody of Client Assets.....	50
Section 280 Objectivity—All Services	52
Section 290 Independence – Audit and Review Engagements.....	53
Section 291 Independence – Other Assurance Engagements	103
Interpretation 2005 – 01.....	125

SECTION 200

Introduction

- 200.1 This Part of the Code describe show the conceptual framework contained in Part A applies in certain situations to *chartered accountants* in public practice, hereinafter referred to as “*chartered accountant*”. This Part does not describe all of the circumstances and relationships that could be encountered by a *chartered accountant* that create or may create threats to compliance with the fundamental principles. Therefore, the *chartered accountant* is encouraged to be alert for such circumstances and relationships.
- 200.2 A *chartered accountant* 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.

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;

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (c) Advocacy;
- (d) Familiarity; and
- (e) Intimidation.

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

200.4 Examples of circumstances that create self-interest threats for a chartered accountant 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 chartered accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the chartered accountant's firm.

200.5 Examples of circumstances that create self-review threats for a chartered accountant include:

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

200.6 Examples of circumstances that create advocacy threats for a chartered accountant include:

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

200.7 Examples of circumstances that create familiarity threats for a chartered accountant include:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered 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.

200.8 Examples of circumstances that create intimidation threats for a chartered accountant 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 chartered accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- A chartered accountant being informed by a partner of the firm that a planned promotion will not occur unless the chartered accountant agrees with an audit client's inappropriate accounting treatment.

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

- (a) Safeguards created by the 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.

200.10 A chartered accountant shall exercise judgment 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 judgment, a chartered accountant shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the chartered 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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.

200.13 Examples of engagement-specific safeguards in the work environment include:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Having a chartered accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
 - Having a chartered 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 chartered 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.
- 200.14 Depending on the nature of the engagement, a chartered accountant may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.
- 200.15 Examples of safeguards within the client's systems and procedures include:
- The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement. The client has competent employees with experience and seniority to make managerial decisions.
 - The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
 - The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

SECTION 210

Professional Appointment

*Client Acceptance and Continuance*¹⁰

- 210.1 Before accepting a new client relationship, a chartered accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior 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 behavior.
- 210.2 A chartered 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.

¹⁰ Paragraphs 210.1 – 210.5 were replaced with paragraphs 210.1 – 210.4, with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered 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 chartered accountant to decline the engagement had that information been available earlier. A chartered 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 behavior such as improper earnings management or balance sheet valuations. If a chartered accountant in public practice identifies a threat to compliance with the fundamental principles, the chartered 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 chartered accountant in public practice shall consider terminating the client relationship where termination is not prohibited by law or regulation.

Engagement Acceptance

210.5 ¹¹The fundamental principle of professional competence and due care imposes an obligation on a chartered accountant to provide only those services that the chartered accountant is competent to perform. Before accepting a specific client engagement, a chartered accountant shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

210.6 A chartered accountant 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.

¹¹ Extant paragraphs 210.6 to 210.9 was renumbered to paragraphs 210.5 to 210.8 respectively

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.7 When a chartered accountant intends to rely on the advice or work of an expert, the chartered accountant 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

210.8 A chartered accountant who is asked to replace another chartered accountant, or who is considering tendering for an engagement currently held by another chartered accountant, 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 chartered accountant accepts the engagement before knowing all the pertinent facts.

210.9 ¹²A chartered 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.

210.10 ¹³When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a chartered accountant shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

210.11 ¹⁴A chartered accountant 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

¹² Paragraphs 210.10 was replaced with paragraph 210.9 with effect from July 15, 2017

¹³ Paragraphs 210.11 was amended and renumbered to paragraph 210.10 with effect from July 15, 2017

¹⁴ Extant paragraph 210.12 was renumbered to paragraph 210.11 with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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.

210.12¹⁵ An existing or predecessor accountant is bound by confidentiality. Whether that *chartered 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 *chartered 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.

210.13 A *chartered 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.

210.14¹⁶ In the case of an audit of financial statements, a *chartered 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 Where the proposed client refuses to give permission for the proposed accountant to communicate with the existing accountant, or fails to do so, the proposed accountant shall decline the appointment, unless there are exceptional circumstances of which the proposed accountant has full knowledge, and the proposed accountant is satisfied regarding all relevant facts, by some other means.

¹⁵ Paragraphs 210.13, and 210.14 was replaced with paragraphs 210.12 and 210.13 with effect from July 15, 2017

¹⁶ Paragraph 210.14 was added after paragraph 210.13 with effect from July 15, 2017

SECTION 220

Conflicts of Interest

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

A chartered 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.

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 chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the chartered accountant at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.
- 220.4 When addressing conflicts of interest, including making disclosures or sharing information within the firm or network and seeking guidance of third parties, the chartered accountant 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 chartered accountant 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 chartered 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 chartered accountant 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 chartered accountant is asked to conduct an engagement in a situation that may become adversarial, even though the parties who engage the chartered accountant may not initially be involved in a dispute. The chartered 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 chartered accountant 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 chartered 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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered accountant 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 chartered accountant 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.
- 220.10 The chartered accountant 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.
 - Creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm.
 - Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information.
 - Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements.
 - Having a chartered accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
 - Consulting with third parties, such as a professional body, legal counsel or another chartered accountant.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

220.11 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 chartered accountant performing the professional services. Disclosure and consent may take different forms, for example:

- General disclosure to clients of circumstances where the chartered 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 chartered 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 chartered 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 chartered 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 chartered accountant shall exercise professional judgment in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

220.12 Where a chartered accountant has requested explicit consent from a client and that consent has been refused by the client, the chartered 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 chartered accountant 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered accountant 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 chartered accountant shall document the nature of the circumstances, including the role that the chartered 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.

SECTION 225¹⁷

Responding to non-Compliance with laws and regulations

Purpose

- 225.1 A chartered 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 chartered accountant's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the chartered 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 chartered accountant should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the chartered accountant has a

¹⁷ The inclusion of Section 225 to the Code addressing Non-Compliance with Laws and Regulations is effective from July 15, 2017.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 prior to making any disclosure, 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 *chartered accountant* are:
- (a) To comply with the fundamental principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Scope

- 225.5 This section sets out the approach to be taken by a *chartered accountant* who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered 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.

225.9 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) 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 chartered 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 chartered 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 Chartered accountants in Public Practice

225.11 Where a chartered accountant becomes aware of a matter to which this section applies, the steps that the chartered accountant takes to comply with this section shall be taken on a timely basis, having regard to the chartered 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.

Audits of financial statements

Obtaining an Understanding of the Matter

225.12 If a chartered 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 chartered 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 chartered accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of knowledge of laws and regulations

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered 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 If the chartered accountant identifies or suspects that non-compliance has occurred or may occur, the chartered 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 chartered 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 judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
 - The individuals actually or potentially involved.
 - The likelihood of collusion.
 - The potential consequences of the matter.
 - Whether that level of management is able to investigate the matter and take appropriate action.
- 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 chartered accountant believes that management is involved in the non-compliance or suspected non-compliance, the chartered accountant shall discuss the matter with those charged with governance. The chartered 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 chartered 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 chartered 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 chartered accountant may suggest appropriate sources of information or recommend that they obtain legal advice.
- 225.20 The chartered accountant shall comply with applicable:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (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

225.21 A chartered 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 chartered accountant becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the chartered 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.

225.22 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
- (a) 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

Determining Whether Further Action Is Needed

- 225.23 The chartered accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.
- 225.24 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.
- 225.25 In light of the response of management and, where applicable, those charged with governance, the chartered accountant shall determine if further action is needed in the public interest.
- 225.26 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 chartered 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.
- 225.27 Examples of circumstances that may cause the chartered accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:
- The chartered accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
 - The chartered accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported,

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

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

225.29 Further action by the chartered 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.

225.30 Where the chartered 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 chartered accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the chartered accountant and withdrawal may be the only available course of action.

225.31 Where the chartered accountant has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the chartered accountant shall, on request by the proposed successor chartered 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.

225.32 As consideration of the matter may involve complex analysis and judgments, the chartered accountant may consider consulting internally, obtaining legal advice to understand the chartered 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

225.33 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.

225.34 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 chartered accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered accountant or other individuals

225.35 If the chartered 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 chartered accountant shall act in good faith and exercise caution when making statements and assertions. The chartered accountant shall also consider whether it is appropriate to inform the client of the chartered accountant's intentions before disclosing the matter.

225.36 In exceptional circumstances, the chartered accountant may become aware of actual or intended conduct that the chartered 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 chartered accountant shall exercise professional judgment 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Documentation

- 225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the chartered 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 chartered accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party perspective.
 - How the chartered accountant is satisfied that the chartered accountant has fulfilled the responsibility set out in paragraph 225.25
- 225.38 International Standards on Auditing (ISAs), for example, require a chartered accountant performing an audit of financial statements to:
- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
 - Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
 - Document identified or suspected non-compliance and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional services other than audits of financial statements

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

- 225.39 If a chartered 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 chartered 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.
- 225.40 The chartered accountant is expected to apply knowledge, professional judgment 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 chartered 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 chartered 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 chartered accountant identifies or suspects that non-compliance has occurred or may occur, the chartered accountant shall discuss the matter with the appropriate level of management and, if the chartered accountant has access to them and where appropriate, those charged with governance.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 225.42 Such discussion serves to clarify the chartered 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 judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
 - The individuals actually or potentially involved.
 - The likelihood of collusion.
 - The potential consequences of the matter.
 - Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor

- 225.44 If the chartered 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 chartered 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 chartered 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 chartered 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 chartered 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 chartered 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.
- 225.47 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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.

225.48 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

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

225.50 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.

225.51 Further action by the chartered 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.

225.52 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 chartered 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 chartered accountant shall act in good faith and exercise caution when making statements and assertions. The chartered accountant shall also consider whether it is appropriate to inform the client of the chartered accountant's intentions before disclosing the matter.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 225.54 In exceptional circumstances, the chartered accountant may become aware of actual or intended conduct that the chartered 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 chartered accountant shall exercise professional judgment 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 chartered 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 chartered 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 chartered accountant considered, the judgments made and the decisions that were taken.
 - How the chartered accountant is satisfied that the chartered accountant has fulfilled the responsibility set out in paragraph 225.49.

SECTION 230

Second Opinions

- 230.1 Situations where a chartered accountant 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 give rise to 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 judgment.
- 230.2 When asked to provide such an opinion, a chartered accountant 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

surrounding any opinion in communications with the client and providing the existing auditor with a copy of the opinion.

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

SECTION 240

Fees and Other Types of Remuneration

- 240.1 When entering into negotiations regarding professional services, a chartered accountant may quote whatever fee is deemed appropriate. The fact that one chartered accountant 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.
- 240.3 Contingent fees are widely used for certain types of non-assurance engagements¹⁸. They may, however, create threats to compliance with the fundamental principles in certain circumstances. They may create a self-interest threat to objectivity. The existence and significance of such threats will depend on factors including:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis for determining the fee.
 - Whether the outcome or result of the transaction is to be reviewed by an independent third party.
- 240.4 The significance of any such threats shall be evaluated and safeguards applied when necessary to eliminate or reduce them to an acceptable level. Examples of such safeguards include:
- An advance written agreement with the client as to the basis of remuneration.

¹⁸ Contingent fees for non-assurance services provided to audit clients and other assurance clients are discussed in Sections 290 and 291 of this Code

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Disclosure to intended users of the work performed by the chartered accountant and the basis of remuneration.
- Quality control policies and procedures.
- Review by an independent third party of the work performed by the chartered accountant.

240.4A Notwithstanding paragraphs 240.3 and 240.4, a chartered accountant shall not charge contingent fees for assurance services provided to clients, or for the preparation of an original or amended tax return, as these services are regarded as creating a self-interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.

- 240.5 In certain circumstances, a chartered accountant may receive a referral fee or commission relating to a client. For example, where the chartered accountant does not provide the specific service required, a fee may be received for referring a continuing client to another chartered accountant or other expert. A chartered accountant may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or provision of 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 chartered accountant may also pay a referral fee to obtain a client, for example, where the client continues as a client of another chartered accountant 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 in advance, in writing, any arrangements to pay a referral fee to another chartered accountant for the work referred.
 - Disclosing to the client in advance, in writing, any arrangements to receive a referral fee for referring the client to another chartered accountant.
 - Obtaining advance agreement in advance, in writing, from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.
- 240.8 A chartered accountant may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

SECTION 250

Marketing Professional Services

- 250.1 When a chartered accountant 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

behaviour is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.

250.2 A chartered accountant shall not bring the profession into disrepute when marketing professional services. The chartered accountant shall be honest and truthful and shall 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 chartered accountant is in doubt about whether a proposed form of advertising or marketing is appropriate, the chartered accountant shall consider consulting with the Regulatory Board or relevant professional body.

SECTION 260

Gifts and Hospitality

260.1 A chartered accountant, 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 chartered accountant 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 chartered accountant may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.

260.3 A chartered accountant 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 chartered accountant shall not accept such an offer.

SECTION 270

Custody of Client Assets

270.1 A chartered accountant 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 chartered accountant 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

chartered accountant 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 ¹⁹As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a chartered accountant in public practice shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if the chartered accountant has reason to believe that 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 chartered accountant shall comply with the provisions of section 225.

270.4 When a chartered accountant in the course of providing professional services is entrusted with client monies, or property other than monies belonging to others, the chartered accountant shall –

- (a) for all clients monies which come into the chartered accountant's possession or under the chartered accountant's control, and for which the chartered accountant is liable to account to a client or any other person:
 - (i) maintain one or more bank accounts with an institution or institutions registered in terms of the Banks Act, 1990 (Act 94 of 1990) that are separate from the chartered accountant's own bank account; and
 - (ii) appropriately designate such accounts (which account or accounts may be a general account in the chartered accountant's name or specific accounts operated in the names of the relevant clients or any other person to whom the chartered accountant is accountable); and
 - (iii) deposit client monies without delay to the credit of such client account indicated in (a)(i) and (a (ii) above; and
- (b) for property other than money which comes into the chartered accountant's possession or under the chartered accountant's control and for which the chartered accountant is liable to account to a client or to any other person (including, but without limitation, trust property which is expressly registered in the name of the chartered accountant, or jointly in the name of the chartered accountant and any other person, in their capacity as administrator, trustee, curator or agent, as the case may be), the chartered accountant shall -
 - (i) maintain such records as may be reasonably expected to ensure that the property can readily be identified as being the property of such client or other person; and

¹⁹ Paragraph 270.3 was replaced with paragraph 270.3, with effect from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (ii) if the property is in the form of documents of title to money, or documents of title that can be converted into money, shall make such arrangements as may be appropriate in the circumstances to safeguard such documents against unauthorised use.

SECTION 280

Objectivity—All Services

- 280.1 A chartered accountant 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 chartered accountant who provides an assurance service shall be independent of the assurance client. Independence of mind and in appearance is necessary to enable the chartered accountant 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 chartered accountants 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 chartered accountant is performing.
- 280.4 A chartered accountant shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:
- Withdrawing from the engagement team.
 - Supervisory procedures.
 - Terminating the financial or business relationship giving rise to the threat.
 - Discussing the issue with higher levels of management within the firm.
 - Discussing the issue with those charged with governance of the client.
- If safeguards cannot eliminate or reduce the threat to an acceptable level, the chartered accountant shall decline or terminate the relevant engagement.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

SECTION 290²⁰

INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

CONTENTS

	Paragraph
Structure of Section	290.1
A Conceptual Framework Approach to Independence	290.4
Networks and Network Firms	290.13
Public Interest Entities	290.25
Related Entities	290.27
Those Charged with Governance	290.28
Documentation	290.29
Engagement Period	290.30
Mergers and Acquisitions	290.33
Breach of a Provision of this Section.....	290.39
Application of the Conceptual Framework Approach to Independence	290.100
Financial Interests	290.102
Loans and Guarantees	290.117
Business Relationships.....	290.123
Family and Personal Relationships	290.126
Employment with an Audit Client	290.132
Temporary Staff Assignments	290.140
Recent Service with an Audit Client	290.141
Serving as a Director or Officer of an Audit Client	290.144
Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client	290.148
Provision of Non-assurance Services to Audit Clients	290.154
Management Responsibilities	209.159
Preparing Accounting Records and Financial Statements	290.163
Valuation Services	290.171
Taxation Services	290.177
Internal Audit Services	290.190
IT Systems Services.....	290.196
Litigation Support Services.....	290.202

²⁰ Amendments to this section arising from changes to the Code addressing certain non-assurance services provisions for audit clients will be effective for audits of financial statements for periods commencing on or after April 15, 2016.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Legal Services	290.204
Recruiting Services	290.209
Corporate Finance Services	290.211
Fees	290.215
Fees—Relative Size	290.215
Fees—Overdue	290.218
Contingent Fees	290.219
Compensation and Evaluation Policies	290.223
Gifts and Hospitality	290.225
Actual or Threatened Litigation	290.226
Reports that Include a Restriction on Use and Distribution	290.500

Structure of Section

- 290.1 This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which a chartered accountant 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.
- 290.2 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.
- 290.3 In this section, the term(s):
- “Audit,” “audit team,” “audit engagement,” “audit client” and “audit report” includes review, review team, review engagement, review client and review report; and
 - “Firm” includes network firm, except where otherwise stated.

A Conceptual Framework Approach to Independence

- 290.4 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.
- 290.5 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

290.6 Independence comprises:

a) *Independence of Mind*

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, 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.

290.7 The conceptual framework approach shall be applied by chartered 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 chartered accountant determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the chartered accountant shall eliminate the circumstance or relationship creating the threats or decline or terminate the audit engagement.

A chartered accountant shall use professional judgment in applying this conceptual framework.

290.8 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of audit teams to identify, evaluate, and address threats to independence. The conceptual framework approach assists chartered 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 chartered accountant from concluding that a situation is permitted if it is not specifically prohibited.

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

290.10 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.

- 290.11 Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.
- 290.12 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization 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

- 290.13 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 shall apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.
- 290.14 To enhance their ability to provide 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.
- 290.15 The judgment 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 judgment shall be applied consistently throughout the network.
- 290.16 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.
- 290.18 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
- 290.19 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.
- 290.20 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.
- 290.21 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.
- 290.22 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.
- 290.23 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network. Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records;
 - Partners and staff;
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
 - Audit methodology or audit manuals; and
 - Training courses and facilities.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

Public Interest Entities

290.25 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.

290.26 Firms *shall* 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;
- Number of equity or debt holders;²¹
- Size; and
- Number of employees.

290.26(a)²² The following entities will generally satisfy the conditions in paragraph 290.26 as having a large number and wide range of stakeholders and thus are likely to be considered as Public Interest Entities:

- Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.

²¹ These changes were made to the IRBA Code of Professional Conduct for Registered Auditors and are effective on or after 1 July 2016.

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CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Banks as defined in the Banks Act 1990, (Act No.94 of 1990) and Mutual Banks as defined in the Mutual Bank Act 1993, (Act No. 124 of 1993).
- Market infrastructure as defined in the Financial Markets Act 2012, (Act No. 19 of 2012).²³
- Insurers registered under the Long-term Insurance Act 1998, (Act No. 52 of 1998) and the Short-term Insurance Act 1998, (Act No.53. of 1998) excluding micro lenders.
- Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) that hold assets in excess of R15 billion.
- Funds as defined in the Pension Funds Act 1956, (Act No. 24 of 1956) that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act 1956, (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.
- Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act 2002, (Act No. 37 of 2002) with assets under management in excess of R50 billion.
- Medical Schemes as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998) that are open to the public (commonly referred to as “open medical schemes”) or are restricted schemes with a large number of members.
- Authorised users of an exchange as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012) who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Other issuers of debt and equity instruments to the public.²⁴
- If a Firm considers an audit client that falls under one or more of the above categories not to be a public interest entity, the Firm shall document its reasoning and its consideration of paragraph 290.26.

²³ Market Infrastructure is defined in the Financial Markets Act, 2012 (Act No. 19 of 2012) as

- (a) A licensed central securities depository
- (b) A licensed clearing house
- (c) A licensed exchange and
- (d) A licensed trade repository

²⁴ For the purpose of this section, “the public” shall mean the public in general or large sectors of the public such as participants in Broad-Based Black Economic Empowerment schemes or participants in offers to large industry sectors, which result in the debt or equity instruments being owned by a large number and wide range of stakeholders.

Related Entities

- 290.27 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

- 290.28 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 judgments 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

- 290.29 Documentation provides evidence of the *chartered accountant's* judgments in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether a firm considered a particular matter or whether it is independent.

The *chartered 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 *chartered 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 *chartered accountant* concluded that they were not

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

because the threat was already at an acceptable level, the chartered 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 chartered 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered accountant review the audit or non-assurance work as appropriate;
 - Having a chartered 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 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 *chartered 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.
- 290.40 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.
- 290.41 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a member body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.
- 290.42 When a breach is identified, the firm shall, in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.
- 290.43 Depending upon the significance of the breach, it may be necessary to terminate the audit 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 judgment 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 chartered 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.
- 290.44 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 judgment, 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 judgment, 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 290.228 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

combined net worth of the individual and the individual's immediate family members may be taken into account.

Financial Interests

Introduction

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 (e.g. 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.

Financial interest in an audit client

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.

Close family holding a financial interest in an audit client

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 chartered accountant review the work of the member of the audit team; or

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Removing the individual from the audit team.

Financial interest in an entity that is holding a financial interest in an audit client

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.

Firm's retirement benefit plan holding a financial interest in an audit client

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.

Other partners holding a financial interest in an audit client

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 judgment shall be used to determine in which office the partner practices in connection with that engagement.

Other partners and managerial employees providing non-audit services to an audit client and holding a direct or material indirect financial interest in that audit client

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,

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

is deemed not to compromise independence if the financial interest is received as a result of the immediate family member's employment rights (e.g., 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; and
- Having a *chartered accountant* review the work of the member of the audit team.

Financial interest in an audit client as a trustee

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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (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.

Known financial interests in an audit client held by other individuals

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:

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

Financial interest received by way of an inheritance, gift or as a result of a merger

290.116 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 the individual shall be removed from the audit team; 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 guarantee of a loan from an audit client that is a bank

- 290.117 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.
- 290.118 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 chartered accountant from a network firm that is neither involved with the audit nor received the loan.
- 290.119 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.

A loan or guarantee of a loan from an audit client other than a bank

- 290.120 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, or any director or officer of the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

immaterial to both (a) the firm or the member of the audit team and the immediate family member, and (b) the client.

A loan or guarantee of a loan made to an audit client

290.121 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 or any director or officer of the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit team and the immediate family member, and (b) the client.

Deposits or brokerage accounts with an audit client

290.122 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

290.123 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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, 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

Introduction

- 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.

Immediate family is a director or in a position to exert significant influence

- 290.127 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.

- 290.128 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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.

Close family is a director or in a position to exert significant influence

290.129 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.

Close relationship with a director or employee in a position to exert significant influence

290.130 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;

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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.

Other personal or family relationships with a director or employee in a position to exert significant influence

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 chartered accountant review the relevant audit work performed.

Employment with an Audit Client

A former partner or member of the audit team joins 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered accountant review the work of the former member of the audit team.

A former partner joins an entity that subsequently becomes an audit client

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 threats to independence shall be evaluated and safeguards applied, when necessary, to eliminate the threat or reduce it to an acceptable level.

Audit team members entering into employment negotiations with an audit client

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 sometime 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

Audit Clients that are Public Interest Entities

Key audit partner joins an audit client

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.

Senior or Managing Partner (Chief Executive Officer) joins an audit client

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:

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

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

290.139 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

290.140 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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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

290.141 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.

290.142 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.

290.143 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

- 290.144 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.
- 290.145 The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.
- 290.146 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.
- 290.147 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

- 290.148 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 chartered accountant who was not a member of the audit team review the work of the senior personnel; or

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 or as otherwise determined by legislation or regulation. 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 chartered accountants 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 review²⁵.

Provision of Non-assurance Services to Audit Clients

- 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:

²⁵ The Regulatory Board has not yet provided such exemption from partner rotation or specified alternative safeguards.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (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

General provisions

290.159 ²⁶Management 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 judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of the 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 the financial statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and 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 a assuming a management responsibility.

²⁶ Paragraphs 290.159 – 290.163 was deleted and replaced with paragraphs 290.159 – 290.162 for the audit of financial statements for periods commencing on or after April 15, 2016

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 judgments 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 the times for 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. Whoever 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.²⁷

²⁷ Paragraphs 290.163 and its heading was inserted after paragraphs 290.162, for the audit of financial statements for periods commencing on or after April 15, 2016

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Preparing Accounting Records and Financial Statements

General Provisions

290.164 ²⁸ 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 accounting treatment within those policies.
- Originating or changing journal entries, or determining the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

290.165 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

²⁸ Paragraphs 290.164 – 290.170 was deleted and replaced with paragraphs 290.164 – 290.170 , for the audit of financial statements for periods commencing on or after April 15, 2016

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

created is reduced to an acceptable level. Services that are routine or mechanical in nature require little to no professional judgment from the professional accounts. 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 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 transactions involve 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

General Provisions

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 chartered accountant 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 judgment.
- 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 290.188 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 chartered accountant 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 judgment 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 do not generally create a threat to independence if management takes responsibility for the returns including any significant judgments 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 judgment 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 Entities²⁹

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

²⁹ Paragraph 290.182 was deleted and replaced with paragraphs 290.181, for the audit of financial statements for periods commencing on or after April 15, 2016. Paragraph 290.183 was deleted for the audit of financial statements for periods commencing on or after April 15, 2016.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 290.172 to 290.177 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 (i.e. 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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.

Assistance in the Resolution of Tax Disputes

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.

290.188 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 chartered accountant 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.

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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

or testimony about the work performed or assisting the client in analysing 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

290.190 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.

290.191 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.

290.192 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;

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

290.193 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.

290.194 When a firm uses the work of an internal audit function, International Standards on Auditing 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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (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;

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (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 chartered 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 290.172 to 290.177 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 (e.g., 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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 advice 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 a legal adviser 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 a legal adviser 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

General Provisions

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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered accountant 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Consulting a third party, such as the Regulatory Board or another chartered accountant, on key audit judgments.
- 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 chartered 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 chartered 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 the Regulatory Board 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 chartered accountant, who is not a member of the firm expressing the opinion on the financial statements, or the Regulatory Board 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered 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:
- 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;
 - 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
 - The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

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;

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered 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 chartered 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.

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 290.229 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

(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 *of the class of users* (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 290.228 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 290.228 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.

Networks and Network Firms

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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 290.228 shall be complied with, subject to paragraphs 290.504 to 290.507.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

SECTION 291³⁰

INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

CONTENTS

	Paragraph
Structure of Section	291.1
A Conceptual Framework Approach to Independence	291.4
Assurance Engagements	291.12
Assertion-Based Assurance Engagements	291.17
Direct Reporting Assurance Engagements	291.20
Reports that Include a Restriction on Use and Distribution	291.21
Multiple Responsible Parties	291.28
Documentation	291.29
Engagement Period	291.30
Breach of a Provision of this Section	291.33
Application of the Conceptual Framework Approach to Independence	291.100
Financial Interests	291.104
Loans and Guarantees	291.112
Business Relationships.....	291.118
Family and Personal Relationships	291.120
Employment with Assurance Clients	291.126
Recent Service with an Assurance Client	291.130
Serving as a Director or Officer of an Assurance Client	291.133
Long Association of Senior Personnel with Assurance Clients.....	291.137
Provision of Non-assurance Services to Assurance Clients	291.138
Management Responsibilities	291.141
Other Considerations	291.145
Fees	291.148
Fees—Relative Size	291.148
Fees—Overdue	291.150
Contingent Fees	291.151
Gifts and Hospitality	291.155
Actual or Threatened Litigation	291.156

³⁰ Amendments to this section arising from changes to the Code addressing certain non-assurance services provisions for audit clients will be effective for audits of financial statements for periods commencing on or after April 15, 2016. See page 127.

Structure of Section

- 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. If the assurance client is also an audit or review client, the requirements in Section 290 also apply to the firm, network firms and members of the audit or review team. In certain circumstances involving assurance engagements where the assurance report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in 291.21 to 291.27.
- 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 Regulatory 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 judgment, 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

291.6 The conceptual framework approach shall be applied by chartered 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 chartered accountant determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the chartered accountant shall eliminate the circumstance or relationship creating the threats or decline or terminate the assurance engagement.

A chartered accountant shall use professional judgment in applying this conceptual framework.

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

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

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

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

291.11 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization of a firm. The firm is required by ISQCs to establish policies and procedures designed to

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

provide it with reasonable assurance that independence is maintained when required by relevant ethical standards.

Assurance Engagements

- 291.12 As further explained in the Assurance Framework, in an assurance engagement the chartered accountant expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria.
- 291.13 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, 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 COSO³¹ or CoCo³² (criteria), to internal control, a process (subject matter).
- 291.14 Assurance engagements may be assertion-based or direct reporting. In either case, they involve three separate parties: a chartered accountant, a responsible party and intended users.
- 291.15 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 291.16 In a direct reporting assurance engagement, the chartered accountant either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

Assertion-based Assurance Engagements

- 291.17 In an assertion-based assurance engagement, the members of the assurance team and the firm shall be independent of the assurance client (the party responsible for the subject matter information, and which may be responsible for the subject matter). Such independence requirements prohibit certain relationships between members of the assurance team and
- (a) directors or officers; and
 - (b) individuals at the client in a position to exert significant influence over the subject matter information.

Also, a determination shall be made as to whether threats to independence are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. An evaluation shall

³¹ “Internal Control – Integrated Framework” The Committee of Sponsoring Organisations of the Treadway Commission

³² “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board. The Canadian Institute of Chartered Accountants.

be made of the significance of any threats that the firm has reason to believe are created by network firm³³ interests and relationships.

- 291.18 In the majority of assertion-based assurance engagements, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party may not be responsible for the subject matter. For example, when a *chartered accountant* 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).
- 291.19 In assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, the members of the assurance team and the firm shall be independent of the party responsible for the subject matter information (the assurance client). In addition, an evaluation shall be made of any threats the firm has reason to believe are created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

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

Reports that Include a Restriction on Use and Distribution

- 291.21 In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the independence requirements in this section may be modified. The modifications to the requirements of Section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report; and (b) explicitly agree to the application of the modified independence requirements.

Knowledge as to the purpose, subject matter information, and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, and to obtain their agreement to the modified independence requirements that are to be applied.

- 291.22 The firm shall communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the assurance engagement. Where the intended users are

³³ See paragraphs 290.13 to 290.24 for guidance on what constitutes a network firm.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

Multiple Responsible Parties

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

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

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

Documentation

291.29 Documentation provides evidence of the *chartered accountant's* judgments 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 *chartered 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 *chartered 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 *chartered accountant* concluded that they were not because the threat was already at an acceptable level, the *chartered accountant* shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

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

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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- (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 chartered 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:

- (b) The non-assurance service will be completed within a short period of time; or
- (c) 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 judgment 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 chartered 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 judgment, 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 291.157 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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

Introduction

- 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 (e.g. 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.

Financial interest in an assurance client

- 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 such a financial interest: a member of the audit team; a member of that individual's immediate family; and the firm.

Close family holding a financial interest in an assurance client

- 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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered accountant review the work of the member of the assurance team; or
- Removing the individual from the assurance team.

Financial interest in an entity that is holding a financial interest in an assurance client

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.

Financial interest in an assurance client as a trustee

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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 chartered accountant review the work of the member of the assurance team.

Financial interest received by way of an inheritance, gift or as a result of a merger

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

A loan or guarantee of a loan from an assurance client that is a bank

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 chartered 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.

A loan or guarantee of a loan from an assurance client other than a bank

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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, or any director or officer of the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm, or the member of the assurance team and the immediate family member, and the client.

A loan or guarantee of a loan made to an assurance client

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 or any director or officer of the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm, or the member of the assurance team and the immediate family member, and the client.

Deposits or brokerage accounts

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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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

Introduction

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.

Immediate family is a director or in a position to exert significant influence

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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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.

Close family is a director or in a position to exert significant influence

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.

Close relationship with a director or employee in a position to exert significant influence

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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Other personal or family relationships with a director or employee in a position to exert significant influence

291.125 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (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 chartered accountant review the relevant assurance work performed.

Employment with Assurance Clients

A former partner or member of the assurance team joins 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:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 *chartered accountant* review the work of the former member of the assurance team.

A former partner joins an entity that subsequently becomes an assurance client

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.

Assurance team members entering into employment negotiations with an assurance client

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 sometime 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 judgments 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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.
- 291.134 The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.
- 291.135 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.
- 291.136 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence, as long as client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance Clients

- 291.137 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;

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 *chartered 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 Assurance Clients

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

291.139 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

291.140 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 ³⁴Management responsibility involve controlling, leading and directing , an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

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

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of employees in relation to the employee's work for entity
- Authorizing transactions;

³⁴ Paragraphs 291.141 – 291.145 was deleted and replaced with paragraphs 291.141 – 291.144, with effect from April 15, 2016

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 and 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 a firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. If the firm assumes a management responsibility as part of any other services provided to the assurance client, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.

291.144 When providing services related to the subject matter or subject matter information of the assurance engagement provided by the firm, the firm shall be satisfied that a client management makes all judgments 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:

- Designate an individual who possess suitable skill, knowledge and experience to be responsible at all times for the client's decisions and oversee the services. Such an individual, preferable within senior management, would understand the objectives, nature and results of the services and 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 the Regulatory Board or another chartered accountant, on key assurance judgments.

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 chartered 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 chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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.
- 291.152 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an assurance engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not enter into any such fee arrangement.
- 291.153 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 judgment related to a matter that is material to the subject matter information of the assurance engagement, no safeguards could reduce the threat to an acceptable level. Accordingly, such arrangements shall not be accepted.
- 291.154 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 chartered 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

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

Actual or Threatened Litigation

- 291.156 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 such factors as:

- The materiality of the litigation; and
- Whether the litigation relates to a prior assurance engagement.

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

- If the litigation involves a member of the assurance team, removing that individual from the assurance team; or
- Having 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 Regulatory Board, in an assurance engagement, the chartered accountant 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered accountant 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 chartered accountant 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 chartered accountant determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands of barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
Total	104,301

The engagement could be structured in differing ways:

Assertion-Based Engagements

- A1 Each company measures its reserves and provides an assertion to the firm and to intended users.
- A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

Direct Reporting Engagements

- D1 Each company measures the reserves and provides the firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.
- D2 The firm directly measures the reserves of some of the companies.

Application of Approach

- A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 291.28.)

For example Company 8 accounts for 0.17% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties that would be considered to be the assurance client (paragraph 291.28).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

The firm shall be independent of the entity that measures the reserves and provides an assertion to the firm and to intended users (paragraph 291.19). That entity is not responsible for the subject matter and so an evaluation shall be made of any threats the firm has reason to believe are created by interests/relationships with the party responsible for the subject matter (paragraph 291.19). There are several parties responsible for the subject matter in this engagement (Companies 1-10). As discussed in example A1 above, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level.

D1 Each company provides the firm with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is not at an acceptable level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 291.28).

For example, Company 8 accounts for 0.17% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm shall be independent of those responsible parties that would be considered to be the assurance client (paragraph 291.28).

D2 The firm directly measures the reserves of some of the companies.

The application is the same as in example D1.

PART C—CHARTERED ACCOUNTANTS IN BUSINESS

	Page
Section 300 Introduction	129
Section 310 Conflicts of Interest.....	132
Section 320 Preparation and Reporting of Information	134
Section 330 Acting with Sufficient Expertise.....	135
Section 340 Financial Interests: Compensation and Incentives Linked to Financial Reporting and Decision Making	136
Section 350 Inducements	138
Section 360 Responding to Non-Compliance with Laws and Regulations.....	139

SECTION 300

Introduction

- 300.1 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to chartered accountants in business. This Part does not describe all of the circumstances and relationships that could be encountered by a chartered accountant in business that create or may create threats to compliance with the fundamental principles. Therefore, the chartered accountant in business is encouraged to be alert for such circumstances and relationships.
- 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 chartered accountants in business. Chartered 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.
- 300.3 A chartered 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 chartered accountant in business.
- 300.4 A chartered 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 chartered accountant in business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.
- 300.5 A chartered 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 chartered 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 behavior.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 300.6 A chartered 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.
- 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 chartered 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 chartered 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, chartered 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 chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

300.12 Examples of circumstances that may create intimidation threats for a chartered accountant in business include:

- Threat of dismissal or replacement of the chartered 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 behavior 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 chartered accountant.

300.15 In circumstances where a chartered accountant in business believes that unethical behavior or actions by others will continue to occur within the employing organisation, the chartered 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 chartered accountant in business may conclude that it is appropriate to resign from

the employing organisation.

SECTION 310

Conflicts of Interest

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

A party may include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

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

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

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the chartered accountant to the advantage or disadvantage of the other employing organization.
- Undertaking a professional activity for each of two parties in a partnership employing the chartered accountant to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the entity employing the chartered accountant who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the accountant's employing organization when an immediate family member of the chartered accountant could benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those specific investments will increase the value of the personal investment portfolio of the chartered 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 chartered accountant in business shall exercise professional judgment 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 chartered accountant at the time, would be likely to conclude might compromise compliance with the fundamental principles.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 310.4 When addressing a conflict of interest, a chartered accountant in business is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another chartered accountant. When making disclosures or sharing information within the employing organization and seeking guidance of third parties, the chartered 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 chartered 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 chartered 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.
- 310.6 In identifying whether a conflict of interest exists or may be created, a chartered 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 chartered accountant shall remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.
- 310.7 If a conflict of interest is identified, the chartered 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.
- 310.8 The chartered 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 a professional body, legal counsel or another chartered accountant.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 310.9 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 organization and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the chartered accountant in business undertaking the professional activity. In certain circumstances, consent may be implied by a party's conduct where the chartered 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.
- 310.10 When disclosure is verbal, or consent is verbal or implied, the chartered 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.
- 310.11 A chartered 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 organization or financial, business or personal relationships that close or immediate family members of the chartered accountant have with the employing organization. Guidance on managing such threats is covered by Sections 320 and 340 of the Code.

SECTION 320

Preparation and Reporting of Information

- 320.1 Chartered accountants in business are often involved in the preparation and reporting of information that may either be 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 chartered 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 chartered 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 chartered accountant in business shall take reasonable steps to maintain information for which the chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 320.4 Threats to compliance with the fundamental principles, for example, self-interest or intimidation threats to objectivity or professional competence and due care, are created where a chartered 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.
- 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 chartered accountant in business shall be alert to the principle of integrity, which imposes an obligation on all chartered 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 organization, the audit committee or those charged with governance of the organization, or with a relevant professional body.
- 320.7 Where it is not possible to reduce the threat to an acceptable level, a chartered accountant in business shall refuse to be or remain associated with information the chartered accountant determines is misleading. A chartered accountant in business may have been unknowingly associated with misleading information. Upon becoming aware of this, the chartered 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 organization, the chartered accountant in business may consider obtaining legal advice. In addition, the chartered 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 chartered accountant in business only undertake significant tasks for which the chartered accountant in business has, or can obtain, sufficient specific training or experience. A chartered accountant in business shall not intentionally mislead an employer as to the level of expertise or experience possessed, nor shall a chartered accountant in business fail to seek appropriate expert advice and assistance when required.
- 330.2 Circumstances that create a threat to a chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 330.3 The significance of the threat will depend on factors such as the extent to which the chartered 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
 - A relevant professional body.
- 330.4 When threats cannot be eliminated or reduced to an acceptable level, chartered accountants in business shall determine whether to refuse to perform the duties in question. If the chartered accountant in business determines that refusal is appropriate, the reasons for doing so shall be clearly communicated.

SECTION 340

Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making

- 340.1 Chartered 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 chartered accountant in business or an immediate or close family member:
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the chartered 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 chartered accountant in business.
 - Holds, directly or indirectly, deferred bonus share entitlements or share options in the employing organization, the value of which could be directly affected by decisions made by the chartered 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 organization's shares, for example, through participation in long-

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 organization who participate in the same arrangements. For example, such arrangements often entitle participants to be awarded shares in the employing organization 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 chartered accountant in business.
- 340.3 A chartered 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 chartered 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 chartered accountant in business shall be particularly alert to the principle of integrity, which imposes an obligation on all chartered 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 chartered 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 organization, in accordance with any internal policies.
 - Consultation, where appropriate, with superiors within the employing organization.
 - Consultation, where appropriate, with those charged with the governance of the employing organization 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 chartered 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 chartered 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 behavior, 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 chartered 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 behavior, then a chartered 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 chartered 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 chartered 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, a professional body or the employer of the individual who made the offer; a chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Making Offers

- 350.5 A chartered accountant in business may be in a situation where the chartered accountant in business is expected, or is under other pressure, to offer inducements to influence the judgment 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 chartered accountant in business improperly.
- 350.7 A chartered accountant in business shall not offer an inducement to improperly influence professional judgment of a third party.
- 350.8 Where the pressure to offer an unethical inducement comes from within the employing organisation, the chartered accountant shall follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

SECTION 360³⁵

Responding to Non-Compliance with Laws and Regulations

Purpose

- 360.1 A chartered 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 chartered accountant's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the chartered 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 organization, 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 chartered accountant's employing organization or by those charged with governance, by management, or by other individuals working for or under the direction of the employing organization which are contrary to the prevailing laws or regulations.
- 360.3 In some jurisdictions, there are legal or regulatory provisions governing how chartered accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the chartered 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 prior to making any disclosure, for example, pursuant to anti-money laundering legislation.

³⁵ The inclusion of Section 360 to the Code addressing Non-Compliance with Laws and Regulations is effective from July 15, 2017

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 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 *chartered accountant* are:
- (a) To comply with the fundamental principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the 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 *chartered accountant* who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements, but compliance with which may be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.
- 360.6 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.
- 360.7 Non-compliance may result in fines, litigation or other consequences for the employing organization 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

360.8 A chartered 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 organization, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

360.9 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the employing organization; and
- (b) Non-compliance other than by the employing organization or those charged with governance, management, or other individuals working for or under the direction of the employing organization.

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

Responsibilities of the employing organization's management and those Charged with governance

360.10 It is the responsibility of the employing organization's management, with the oversight of those charged with governance, to ensure that the employing organization'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 organization 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 organization.

Responsibilities of chartered accountants in business

360.11 Many employing organizations 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 organization 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 chartered accountant's employing organization, the chartered accountant shall consider them in determining how to respond to such non-compliance.

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

Responsibilities of senior chartered accountants in business

360.13 Senior chartered accountants in business ("senior chartered 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

organization's human, financial, technological, physical and intangible resources. Because of their roles, positions and spheres of influence within the employing organization, 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 chartered accountants within the employing organization.

Obtaining an Understanding of the Matter

360.14 If, in the course of carrying out professional activities, a senior chartered accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the chartered 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 organization, investors, creditors, employees or the wider public.

360.15 A senior chartered accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the chartered accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the chartered accountant may cause, or take appropriate steps to cause, the matter to be investigated internally. The chartered accountant may also consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

Addressing the Matter

360.16 If the senior chartered accountant identifies or suspects that non-compliance has occurred or may occur, the chartered accountant shall, subject to paragraph 360.11, discuss the matter with the chartered accountant's immediate superior, if any, to enable a determination to be made as to how the matter should be addressed. If the chartered accountant's immediate superior appears to be involved in the matter, the chartered accountant shall discuss the matter with the next higher level of authority within the employing organization.

360.17 The senior chartered 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

(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 chartered accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed pursuant to the chartered 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 chartered accountant shall assess the appropriateness of the response of the chartered 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 chartered 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 chartered accountant's superiors, if any, and those charged with governance, the chartered 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 organization.
- Whether the senior chartered accountant continues to have confidence in the integrity of the chartered accountant's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.

360.23 Examples of circumstances that may cause the senior chartered accountant no longer to have confidence in the integrity of the chartered accountant's superiors and those charged with governance include situations where:

- The chartered 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.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- 360.24 In determining the need for, and nature and extent of any further action needed, the senior chartered accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the chartered accountant at the time, would be likely to conclude that the chartered accountant has acted appropriately in the public interest.
- 360.25 Further action by the chartered accountant may include:
- Informing the management of the parent entity of the matter if the employing organization is a member of a group.
 - Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
 - Resigning from the employing organization.
- 360.26 Where the senior chartered accountant determines that resigning from the employing organization would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the chartered accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the chartered accountant and resignation may be the only available course of action.
- 360.27 As consideration of the matter may involve complex analysis and judgments, the senior chartered accountant may consider consulting internally, obtaining legal advice to understand the chartered 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

- 360.28 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.
- 360.29 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 chartered accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:
- The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
 - The employing organization is a regulated entity and the matter is of such significance as to threaten its license to operate.
 - The employing organization is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the employing organization's securities or pose a systemic risk to the financial markets.
 - Products that are harmful to public health or safety would likely be sold by the employing organization.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- The employing organization 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 chartered accountant or other individuals.

360.30 If the senior chartered 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 chartered accountant shall act in good faith and exercise caution when making statements and assertions.

360.31 In exceptional circumstances, the senior chartered accountant may become aware of actual or intended conduct that the chartered 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 chartered accountant shall exercise professional judgment 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 chartered accountant is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the chartered accountant's superiors, if any, and those charged with governance and other parties.
- How the chartered accountant's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the chartered accountant considered, the judgments made and the decisions that were taken.
- How the chartered accountant is satisfied that the chartered accountant has fulfilled the responsibility set out in paragraph 360.21.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

Responsibilities of chartered accountant's other than senior chartered accountant's in business

- 360.33 If, in the course of carrying out professional activities, a chartered accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the chartered 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.
- 360.34 The chartered accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the chartered accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the chartered accountant may consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.
- 360.35 If the chartered accountant identifies or suspects that non-compliance has occurred or may occur, the chartered accountant shall, subject to paragraph 360.11, inform an immediate superior to enable the superior to take appropriate action. If the chartered accountant's immediate superior appears to be involved in the matter, the chartered accountant shall inform the next higher level of authority within the employing organization.
- 360.36 In exceptional circumstances, the chartered accountant may decide that disclosure of the matter to an appropriate authority is an appropriate course of action. If the chartered 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 chartered 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 chartered accountant is encouraged to have the following matters documented:
- The matter.
 - The results of discussions with the chartered accountant's superior, management and, where applicable, those charged with governance and other parties.
 - How the chartered accountant's superior has responded to the matter.
 - The courses of action the chartered accountant considered, the judgments made and the decisions that were taken.

Effective Date

This Code is effective.

CHANGES TO THE CODE
CONTENTS

Section 270 Custody of Client Assets	147
Section 290 Independence – Audit and Review Engagements	148
Section 291 Independence – Other Assurance Engagements	153

SECTION 270

Custody of client assets

(Extant paragraph 270.4 will be replaced by paragraph 270.4 below.)

270.4 ³⁶When a chartered accountant, in the course of providing professional services, is entrusted with client monies, which come into the chartered accountant's possession or under the chartered accountant's control and for which the chartered accountant is responsible to account to a client, the chartered accountant shall –

- (a) Not refer to such client monies as being held "in trust" or in a "trust account";
- (b) Maintain one or more bank accounts, with an institution or institutions registered in terms of the Banks Act, 1990 (Act 94 of 1990), that are separate from the chartered accountant's own bank account;
- (c) Appropriately designate such bank accounts. This includes a general bank account in the chartered accountant's name where all client monies are held (such as ABC's Client Account), or a specific account named and operated per relevant client;
- (d) Deposit client monies without delay to the credit of such client account;
- (e) Maintain such records as may reasonably be expected to ensure that the client monies can be readily identified as being the property of the client, for example proper bookkeeping and being able to supply the client with an analysis of the account/s;
- (f) Perform a reconciliation between the designated bank account and the client monies ledger account/s; and
- (g) Not hold client monies indefinitely unless specifically allowed by laws and regulations. Chartered accountants are encouraged to hold client monies for a limited period, depending on the professional service provided.

270.5 While providing professional services, if the chartered accountant is entrusted with client assets other than client monies which comes into the chartered accountant's possession or under the chartered accountant's control and for which the chartered accountant is responsible to account to a client, the chartered accountant shall –

- (a) Not refer to such property as being held "in trust" or in a "trust account" as this could be misleading;
- (b) Maintain such records as may be reasonably expected to ensure that the client assets can readily be identified as being the property of the client; and

³⁶ Paragraph 270.4 was replaced with paragraph 270.4 and paragraphs 270.5 to 270.7 was included, with effect from January 1, 2018

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

(c) If the client assets are in the form of documents of title to money, or documents of title that can be converted into money, make such arrangements as may be appropriate in the circumstances to safeguard such documents against unauthorised use.

270.6 A chartered accountant shall consider applying the following measures to the protection of client assets:

(a) If the chartered accountant administers a large number of client accounts that hold client monies the chartered accountant may utilise an umbrella account with sub-accounts for each client;

(b) If the professional service requires the chartered accountant to be entrusted with client monies for an unusually long period and the chartered accountant is not the auditor or assurance provider, the chartered accountant shall request the client to open a separate bank account and then provide the chartered accountant with appropriate power of attorney or signatory rights;

(c) Before taking custody of client assets the chartered accountant shall consider whether the firm's indemnity and fidelity insurance is sufficient to cover incidents of fraud or theft; and

(d) Where a formal engagement letter is entered into covering the professional service involving custody of client assets, the engagement letter shall address the risks and responsibilities relating to such client assets.

270.7 A chartered accountant shall not accept custody of client assets unless the threat to independence can be eliminated or reduced to an acceptable level. The independence requirements in Section 290.159-290.162 apply for audit and review engagements and section 291.141 – 291.144 apply to other assurance engagements.

Effective Date

1. The changes will be effective on or after 31 December 2017.
2. The effective date applies to client assets that are currently in the chartered accountant's custody.
3. Where the chartered accountant is performing non-assurance services for an audit or assurance client that requires the chartered accountant to take custody of client assets, consideration should be given specifically to Section 290 of the SAICA Code of Professional Conduct.

SECTION 290 INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

(Extant paragraphs 290.148 to 290.168 deleted and replaced with 290.148 to 290.168)

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

General Provisions

290.148 Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved in an audit engagement over a long period of time.

Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the audit team with:

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgment.

290.149 The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the audit client.

(a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been a member of the engagement team, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) Factors relating to the audit client include:

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

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

290.151 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

safeguards include:

- Rotating the individual off the audit team.
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having a *chartered accountant* who was not a member of the audit team review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

290.152 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the audit engagement or exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.153-290.168 also apply.

Audits of Public Interest Entities

290.153 In respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs 290.155-290.163.

290.154 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.155-290.157 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph 290.158.

Cooling-off Period

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

290.156 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

cooling-off period shall be three consecutive years.

- 290.157 If the individual has acted in any other capacity as a key audit partner for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a Combination of Key Audit Partner Roles

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

- 290.159 If the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph 290.160(a), be three consecutive years.

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

- (a) Five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Three consecutive years in the case of any other combination.

- 290.161 If the individual acted in any other combination of key audit partner roles, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

- 290.162 In determining the number of years that an individual has been a key audit partner under paragraphs 290.153-290.154, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

Position where Shorter Cooling-off Period is Established by Law or Regulation

- 290.163 Where a legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs 290.155, 290.158 and 290.160(a) provided that the applicable time-on period does not exceed seven years.

Restrictions on Activities During the Cooling-off Period

- 290.164 For the duration of the relevant cooling-off period, the individual shall not:
- (a) Be a member of the engagement team or provide quality control for the audit engagement;
 - (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period, where this remains relevant to the audit);
 - (c) Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

client; or

- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

Other Matters

- 290.165 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit engagement prior to an individual becoming a key audit partner.
- 290.166 Despite paragraphs 290.153-290.161, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.
- 290.167 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 a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.
- 290.168 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

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

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 other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

SECTION 291 INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

(Extant paragraphs 291.137 to 291.141 deleted and replaced with 291.137 to 291.141)

Long Association of Personnel with an Assurance Client

291.137 Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved on an assurance engagement of a recurring nature over a long period of time.

A familiarity threat may be created as a result of an individual's long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with the assurance client or a member of senior management and which may inappropriately influence the individual's judgment.

291.138 The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the assurance engagement.
- How long the individual has been a member of the assurance team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the subject matter or subject matter information has changed.

CODE OF PROFESSIONAL CONDUCT FOR CHARTERED ACCOUNTANTS

- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.
- 291.139 The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.
- 291.140 The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards in relation to a specific engagement include:
- Rotating the individual off the assurance team.
 - Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
 - Having a *chartered accountant* who is not a member of the assurance team review the work of the individual.
 - Performing regular independent internal or external quality reviews of the engagement.
 - Performing an engagement quality control review.
- 291.141 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the assurance engagement or exert direct influence on the outcome of the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be eliminated or reduced to an acceptable level.

EFFECTIVE DATE

Subject to the transitional provision below, paragraphs 290.148-290.168 are effective for audits of financial statements for periods beginning on or after 15 December 2018. Paragraphs 291.137-291.141 are effective as of 15 December 2018. Early adoption is permitted.

Paragraph 290.163 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.