PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE
SECTION 300
APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Introduction

300.1 This Part of the Code sets out requirements and application material for sustainability assurance practitioners/professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by sustainability assurance practitioners/professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires sustainability assurance practitioners/professional accountants in public practice to be alert for such facts and circumstances.

300.2 [intentionally left blank] The requirements and application material that apply to professional accountants in public practice are set out in:

• Part 3 – Professional Accountants in Public Practice, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.

• International Independence Standards as follows:
  • Part 4A – Independence for Audit and Review Engagements, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
  • Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit or review engagements.

300.3 [intentionally left blank] In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

Requirements and Application Material

General

R300.4 A sustainability assurance practitioner professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 [intentionally left blank] When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to those
300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm, where an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.

- Preparing or presenting financial information for the accountant’s client or firm. The requirements and application material set out in Section 220 apply in these circumstances.

- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.

- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

300.5 A2 The more senior the position of a sustainability assurance practitioner professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioner or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.

- Firm processes and performance evaluation and reward criteria that promote an ethical culture.

- Ethics and whistle-blowing policies.

- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

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

(a) Self-interest Threats

- A sustainability assurance practitioner professional accountant having a direct financial interest in a sustainability assurance client.
A sustainability assurance practitioner professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the engagement professional service for the sustainability assurance client in accordance with applicable technical and professional standards for that price.

A sustainability assurance practitioner professional accountant having a close business relationship with a sustainability assurance client.

A sustainability assurance practitioner professional accountant having access to confidential information that might be used for personal gain.

A sustainability assurance practitioner professional accountant discovering a significant error when evaluating the results of a previous professional service provided performed by a member of the accountant’s practitioner’s firm.

(b) Self-review Threats

A sustainability assurance practitioner professional accountant issuing an assurance opinion or report on the effectiveness of the operation of financial systems for collecting, measuring or managing sustainability information after designing or implementing the systems.

A sustainability assurance practitioner professional accountant having prepared the original data used to generate records sustainability information that were the subject matter of the sustainability assurance engagement.

A sustainability assurance practitioner having provided sustainability reporting services for an entity in a sustainability assurance client’s value chain, the outcome of which is subject to the sustainability assurance engagement for the client.

A sustainability assurance practitioner having provided sustainability-related certification services before performing the sustainability assurance engagement.

(c) Advocacy Threats

A sustainability assurance practitioner professional accountant promoting the interests of, or shares in, a sustainability assurance client.

A sustainability assurance practitioner professional accountant acting as an advocate on behalf of a sustainability assurance client in litigation or disputes with third parties.

A sustainability assurance practitioner professional accountant lobbying in favor of legislation on behalf of a sustainability assurance client.
A sustainability assurance practitioner lobbying in favor of a particular sustainability-related initiative on behalf of a sustainability assurance client.

(d) Familiarity Threats

- A sustainability assurance practitioner professional accountant having a close or immediate family member who is a director or officer of the sustainability assurance client.
- A director or officer of the sustainability assurance client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the sustainability engagement leader/partner.
- A sustainability assurance audit team member having a long association with the audit sustainability assurance client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A sustainability assurance practitioner professional accountant being threatened with dismissal from a client engagement with a sustainability assurance client or the firm because of a disagreement about a professional matter.
- A sustainability assurance practitioner professional accountant feeling pressured to agree with the judgment of a sustainability assurance client because the client has more expertise on the matter in question.
- A sustainability assurance practitioner professional accountant being informed that a planned promotion will not occur unless the practitioner agrees with an inappropriate sustainability-related analysis or conclusion accounting treatment.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

Identifying Threats Associated with the Use of Technology

The following are examples of facts and circumstances relating to the use of technology that might create threats for a sustainability assurance practitioner professional accountant when undertaking an engagement for a sustainability assurance client:
• Self-interest Threats
  o The data available might not be sufficient for the effective use of the technology.
  o The technology might not be appropriate for the purpose for which it is to be used.
  o The practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
  (Ref: Para. 230.2).

• Self-review Threats
  o The technology was designed or developed using the knowledge, expertise or judgment of the practitioner or firm.

Evaluating Threats

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

(a) The sustainability assurance client and its operating environment; and
(b) The firm and its operating environment.

300.7 A2 The sustainability assurance practitioner’s professional accountant’s evaluation of the level of a threat is also impacted by the nature and scope of the professional service engagement performed for the sustainability assurance client.

The Sustainability Assurance Client and its Operating Environment

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

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

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

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

• The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.

• The client has competent employees with experience and seniority to make managerial decisions.
The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements. [TBD in collaboration with WS1 (Section 600)]

The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm’s services.

[Placeholder for potential additional sustainability assurance-specific examples – TBD with SRG]

The Firm and its Operating Environment

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

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

300.7 A6 The sustainability assurance practitioner’s professional accountant’s evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the practitioner’s accountant’s firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 New information or changes in facts and circumstances might:

(a) Impact the level of a threat; or

Commented [LL3]: Note for IESBA: WS1 definition that will be presented to the Board in June
(b) Affect the sustainability assurance practitioner’s professional accountant’s conclusions about whether safeguards applied continue to address identified threats as intended.

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

300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of an professional service engagement performed for a sustainability assurance client is expanded.
- When the sustainability assurance client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the sustainability assurance practitioner professional accountant is jointly engaged by two a sustainability assurance clients and another client and a dispute emerges between the two clients.
- When there is a change in the sustainability assurance practitioner’s professional accountant’s personal or immediate family relationships.

Addressing Threats

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

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed for the sustainability assurance client or advise as necessary might address a self-review threat.
- Using different leaders and teams with separate reporting lines for the provision of non-assurance services to a sustainability assurance client might address self-review, advocacy or familiarity threats. [TBD in collaboration with WS1 (Section 600)]
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
• Separating teams performing engagements for the sustainability assurance client when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 This remaining sections of Part 2 and International Independence Standards describe certain threats that might arise during the course of performing engagements for sustainability assurance clients and include examples of actions that might address threats.

Appropriate Reviewer

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

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with Part 5 of the Code, a sustainability assurance practitioner or professional accountant shall determine the appropriate individual(s) within the governance structure with whom to communicate. If the practitioner or accountant communicates with a subgroup of those charged with governance, the practitioner or accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, a sustainability assurance practitioner or professional accountant might consider:

(a) The nature and importance of the circumstances; and
(b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or another internal committee tasked with oversight of sustainability information, or an individual member of those charged with governance. TBD with the SRG whether the reference added is appropriate and/or sufficient.

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

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the sustainability assurance client, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the sustainability assurance practitioner or professional accountant has satisfied the requirement to communicate with those charged with governance.
SECTION 310
CONFLICTS OF INTEREST

Introduction

310.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

(a) A sustainability assurance practitioner provides a professional service related to a particular matter for two or more sustainability assurance clients and another client whose interests with respect to that matter are in conflict; or

(b) The interests of a sustainability assurance practitioner with respect to a particular matter and the interests of the sustainability assurance client for whom the practitioner provides a professional service are in conflict.

310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a sustainability assurance practitioner performs an audit, review or other sustainability assurance service of heightened public interest, independence is also required in accordance with International Independence Standards.

Requirements and Application Material

General

R310.4 A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a due diligence transaction advisory service to a client seeking to acquire an audit sustainability assurance client, where the firm has obtained confidential information during the course of the audit sustainability assurance engagement that might be relevant to the transaction.

- Providing advice to two sustainability assurance clients and another client at the same time when the clients are competing to acquire the same company and the advice might be relevant to the parties’ competitive positions.

- Providing sustainability assurance-related services to a seller and a buyer in relation to the same transaction.

- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.

- Representing two sustainability assurance clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership.
• In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.

• Advising a sustainability assurance client to invest in a business in which, for example, the spouse of the professional accountant/practitioner has a financial interest.

• Providing strategic advice to a sustainability assurance client on its competitive position while having a joint venture or similar interest with a major competitor of the client.

• Advising a sustainability assurance client on acquiring a business which the firm is also interested in acquiring.

• Advising a sustainability assurance client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

• [Placeholder for potential additional sustainability assurance-specific examples – TBD with SRG]

Conflict Identification

General

R310.5

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

(a) The nature of the relevant interests and relationships between the parties involved; and

(b) The service and its implication for relevant parties.

310.5 A1

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

310.5 A2

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

• The nature of the professional services provided.

• The size of the firm.

• The size and nature of the client base.

• The structure of the firm, for example, the number and geographic location of offices.

310.5 A3

More information on client acceptance is set out in Section 320, Professional
Changes in Circumstances

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

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

**Network Firms**

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

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

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

**Threats Created by Conflicts of Interest**

310.8 A1 In general, the more direct the connection between the professional services engagement performed for a sustainability assurance client and the matter on which the parties’ interests conflict, the more likely the level of the threat is not at an acceptable level.

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

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

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

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

Disclosure and Consent

General

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

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

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

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

- General disclosure to clients of circumstances where, as is common commercial practice, the sustainability assurance practitioner professional accountant does not perform engagements provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, a practitioner accountant might make general disclosure in the standard terms and conditions for the engagement.

- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.

- Consent might be implied by clients’ conduct in circumstances where the sustainability assurance practitioner professional accountant has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

310.9 A3 It is generally necessary:

(a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and

(b) To obtain consent of the affected clients to perform the engagement professional services for the sustainability assurance client when safeguards are applied to address the threat.

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

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

When Explicit Consent is Refused

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

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

Confidentiality

General

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

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

When Disclosure to Obtain Consent would Breach Confidentiality

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

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

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

- A transaction-related service for a sustainability assurance client in a hostile takeover of another client of the firm.
- An forensic investigation for a sustainability assurance client regarding a suspected misstatement fraud, where the firm has confidential information from its work for another client who might be involved in the value chain fraud.
- Placeholder for potential additional sustainability assurance-specific examples. [BD with SRG]
In the circumstances set out in paragraph R310.12, the sustainability assurance practitioner professional accountant shall document:

(a) The nature of the circumstances, including the role that the practitioner accountant is to undertake;

(b) The specific measures in place to prevent disclosure of information between the teams serving the sustainability assurance client and the other client; and

(c) Why it is appropriate to accept or continue the engagement.
SECTION 320
PROFESSIONAL APPOINTMENTS

(...)

SECTION 321
SECOND OPINIONS

(...)

SECTION 325
OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

(...)

SECTION 330
FEES AND OTHER TYPES OF REMUNERATION

(...)

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SECTION 340
INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

340.1 Sustainability assurance practitioners, professional accountants, are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.

340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing engagements for sustainability assurance clients that does not constitute non-compliance with laws and regulations. This section also requires a sustainability assurance practitioner, professional accountant, to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

340.4 An inducement is an object, situation, or action that is used as a means to influence another individual’s behavior, but not necessarily with the intent to improperly influence that individual’s behavior. Inducements can range from minor acts of hospitality between sustainability assurance practitioners, professional accountants, and existing or prospective sustainability assurance clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

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

Inducements Not Prohibited by Laws and Regulations

340.6 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.
Inducements with Intent to Improperly Influence Behavior

R340.7 A sustainability assurance practitioner professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

R340.8 A sustainability assurance practitioner professional accountant shall not accept, or encourage others to accept, any inducement that the practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

340.9 A1 An inducement is considered as improperly influencing an individual’s behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a sustainability assurance practitioner professional accountant in considering what constitutes unethical behavior on the part of the practitioner and, if necessary by analogy, other individuals.

340.9 A2 A breach of the fundamental principle of integrity arises when a sustainability assurance practitioner professional accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.

340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a sustainability assurance engagement professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
- Whether the sustainability assurance practitioner professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the sustainability assurance client.
- The degree of transparency with which the inducement is offered.
Whether the inducement was required or requested by the recipient.

The known previous behavior or reputation of the offeror.

### Consideration of Further Actions

340.10 A1 If the sustainability assurance practitioner professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.

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

- Informing senior management of the firm or those charged with governance of the sustainability assurance client regarding the offer.
- Amending or terminating the business relationship with the sustainability assurance client.

### Inducements with No Intent to Improperly Influence Behavior

340.11 A1 The requirements and application material set out in the conceptual framework apply when a sustainability assurance practitioner professional accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the sustainability assurance practitioner professional accountant has concluded there is no actual or perceived intent to improperly influence behavior include:

- Self-interest threats
  - Placeholder for a sustainability assurance-specific example - TBD with SRG
  - A professional accountant is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.

- Familiarity threats
  - A sustainability assurance practitioner professional accountant regularly takes an existing or prospective sustainability assurance client to sporting events.

- Intimidation threats
  - A sustainability assurance practitioner professional accountant accepts hospitality from a sustainability assurance client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 340.9 A3 for determining intent.

340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
• Transferring responsibility for the provision of any professional services to the sustainability assurance client to another individual who the sustainability assurance practitioner professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

• Being transparent with senior management of the firm or of the sustainability assurance client about offering or accepting an inducement.

• Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm’s ethics compliance or maintained by the sustainability assurance client.

• Having an appropriate reviewer, who is not otherwise involved in providing the professional services, perform the engagement for the sustainability assurance client, review any work performed or decisions made by the sustainability assurance practitioner professional accountant with respect to the client from which the practitioner accountant accepted the inducement.

• Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.

• Reimbursing the cost of the inducement, such as hospitality, received.

• As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

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

(a) By an immediate or close family member of the practitioner accountant to an existing or prospective sustainability assurance client of the accountant.

(b) To an immediate or close family member of the practitioner accountant by an existing or prospective sustainability assurance client of the accountant.

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

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

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

(c) The practitioner accountant and the existing or prospective client.

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

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

Application of the Conceptual Framework

340.14 A1 Where the sustainability assurance practitioner professional accountant becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the fundamental principles might be created where:

(a) The immediate or close family member offers or accepts the inducement contrary to the advice of the practitioner accountant pursuant to paragraph R340.13; or

(b) The practitioner accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the practitioner accountant or of the existing or prospective client exists.

340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

Other Considerations

340.15 A1 If a sustainability assurance practitioner professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a sustainability assurance client or individuals working for or under the direction of the sustainability assurance client, the requirements and application material in Section 360 apply.

340.15 A2 If a firm, network firm or an audit sustainability assurance team member is being offered gifts or hospitality from an audit sustainability assurance client, the requirement and application material set out in Section 420 apply.

340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.
SECTION 350
CUSTODY OF CLIENT ASSETS

(…)

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SECTION 360
RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

360.1 Sustainability assurance practitioners professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a sustainability assurance practitioner professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

360.3 A sustainability assurance practitioner professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of performing a professional service for performing an engagement for a sustainability assurance client. This section guides the practitioner accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures of the client’s sustainability information financial statements; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures of the client’s sustainability information financial statements, but compliance with which might be fundamental to the operating aspects of the sustainability assurance client’s business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Sustainability Assurance Practitioner Professional Accountant in Relation to Non-compliance with Laws and Regulations

360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the sustainability assurance practitioner professional accountant are:

(a) To comply with the principles of integrity and professional behavior;

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

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

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

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

Requirements and Application Material

General

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

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

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

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

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

R360.6 In some jurisdictions, there are may be legal or regulatory provisions governing how sustainability assurance practitioners professional accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the practitioners involved shall obtain an understanding of those legal or regulatory provisions and comply with them, including:
(a) Any requirement to report the matter to an appropriate authority; and
(b) Any prohibition on alerting the client.

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

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

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

360.7 A3 This section does not address:
(a) Personal misconduct unrelated to the business activities of the sustainability assurance client; and
(b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where a practitioner professional accountant has been engaged by a sustainability assurance 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 practitioneraccountant might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of Management and Those Charged with Governance

360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the sustainability assurance client’s business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:
(a) The sustainability assurance client;
(b) An individual charged with governance of the sustainability assurance client entity;
(c) A member of management of the sustainability assurance client; or
(d) Other individuals working for or under the direction of the sustainability assurance client.

Responsibilities of Sustainability Assurance Practitioners All Professional Accountants

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

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

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

The sustainability assurance practitioner, professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

If the sustainability assurance practitioner, professional accountant identifies or suspects that non-compliance has occurred or might occur, the practitioner/accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance. The purpose of the discussion is to clarify the sustainability assurance practitioner’s understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

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.

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

The sustainability assurance practitioner, professional accountant might also consider discussing the matter with internal auditors, where applicable.

If the sustainability assurance practitioner, professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the practitioner/accountant shall discuss the matter with those charged with governance.
R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the sustainability assurance practitioner professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:

(a) Rectify, remediate or mitigate the consequences of the non-compliance;

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

(c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

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

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

R360.15 The sustainability assurance practitioner professional accountant shall comply with applicable:

(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and

(b) Requirements under professional or technical 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 sustainability assurance practitioner’s opinion or conclusion on the auditor’s report.

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

Communication with Respect to Groups

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

(a) The practitioner performs a sustainability assurance audit related to a component for purposes of the group’s sustainability assurance engagement audit; or

(b) The practitioner is engaged to perform an engagement audit of the component’s sustainability information financial statements of a legal entity or business unit that is part of a group for purposes other than the group’s sustainability assurance engagement audit, for example, a statutory audit.
The communication to the *group engagement leader* shall be in addition to responding to the matter in accordance with the provisions of this section.

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

R360.17 Where the *group engagement leader* becomes aware of non-compliance or suspected non-compliance in the course of a group’s *sustainability assurance engagement audit*, the *group engagement leader* shall consider whether the matter might be relevant to:

(a) One or more components subject to *audit work* for purposes of the group’s *sustainability assurance engagement audit*; or

(b) One or more legal entities or business units that are part of the group and whose *sustainability information financial statements* is subject to *assurance audit* for purposes other than the group’s *sustainability assurance engagement audit*, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group’s *sustainability assurance engagement audit* in accordance with the provisions of this section.

R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and legal entities or business units specified in paragraph R360.17(b), the *group engagement leader* shall take steps to have the matter communicated to those performing *auditor work* at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the *group engagement leader* shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities or business units specified in paragraph R360.17(b) are subject to *sustainability assurance audit* and, if so, to ascertain to the extent practicable the identity of the *practitioners*.

360.18 A1 The purpose of the communication is to enable those responsible for *audit sustainability assurance work* at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the *group engagement leader’s* firm or network is the same as or different from the firms or networks of those performing *sustainability assurance audit* work at the components, legal entities or business units.

**Communicating the Matter to the Sustainability Assurance Client’s Entity’s External Auditor**

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

(a) An audit client of the firm or a network firm; or

(b) A component of an audit client of the firm or a network firm.
the accountant shall consider whether to communicate the non-compliance or suspected
non-compliance to the firm that is the sustainability assurance client’s external auditor, if
any.

Relevant Factors to Consider

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

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

Purpose of Communication

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

Determining Whether Further Action Is Needed

R360.19 The sustainability assurance practitioner professional accountant shall assess the
appropriateness of the response of management and, where applicable, those charged with
governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of
management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately
investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the
consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance
where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-
occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an
appropriate authority where appropriate and, if so, whether the disclosure appears
adequate.
In light of the response of management and, where applicable, those charged with governance, the sustainability assurance practitioner professional accountant shall determine if further action is needed in the public interest.

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

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the sustainability assurance client.
- Whether the sustainability assurance practitioner professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

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

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

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

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

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

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

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

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

360.23 A1 If the proposed sustainability assurance practitioner accountant is unable to communicate with the predecessor sustainability assurance practitioner accountant, the proposed sustainability assurance practitioner accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

360.24 A1 As assessment of the matter might involve complex analysis and judgments, the sustainability assurance practitioner professional accountant might consider:

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

Determining Whether to Disclose the Matter to an Appropriate Authority

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

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

- The sustainability assurance client entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The sustainability assurance client entity is regulated and the matter is of such significance as to threaten its license to operate.
• The sustainability assurance client entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the client entity’s securities or pose a systemic risk to the financial markets.

• It is likely that the sustainability assurance client entity would sell products that are harmful to public health or safety.

• The sustainability assurance client entity is promoting a scheme to its clients to assist them in evading taxes.

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

• Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.

• Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.

• Whether there are actual or potential threats to the physical safety of the sustainability assurance practitioner professional accountant or other individuals.

R360.26 If the sustainability assurance practitioner professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.3 of the Code. When making such disclosure, the practitioner accountant shall act in good faith and exercise caution when making statements and assertions. The practitioner accountant shall also consider whether it is appropriate to inform the client of the practitioner accountant’s intentions before disclosing the matter.

Imminent Breach

R360.27 In exceptional circumstances, the sustainability assurance practitioner professional accountant might become aware of actual or intended conduct that the practitioner accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client entity, the practitioner accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.3 of the Code.

Documentation

R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner professional accountant shall document:
• How management and, where applicable, those charged with governance have responded to the matter.

• The courses of action the practitioner accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.

• How the practitioner accountant is satisfied that the practitioner accountant has fulfilled the responsibility set out in paragraph R360.20.

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

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;

- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and

- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional Services Other than Audits of Financial Statements

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

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

360.29 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.29 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R360.30 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management. If the accountant has access to those charged with governance, the accountant shall also discuss the matter with them where appropriate.

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

360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

**Communicating the Matter to the Entity’s External Auditor**

R360.31 If the professional accountant is performing a non-audit service for:
- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm,

the accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm’s protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.32 If the professional accountant is performing a non-audit service for:
- (a) An audit client of a network firm; or
- (b) A component of an audit client of a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network’s protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.33 If the professional accountant is performing a non-audit service for a client that is not:
- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

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

**Relevant Factors to Consider**

360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:
- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

Whether management or those charged with governance have already informed the entity’s external auditor about the matter.

The likely materiality of the matter to the audit of the client’s financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

### Purpose of Communication

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

### Considering Whether Further Action is Needed

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

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

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

360.36 A2 Further action by the professional accountant might include:

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

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

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

360.37 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.3 of the
Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant’s intentions before disclosing the matter.

Imminent Breach

R360.38 In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.3 of the Code.

Seeking Advice

360.39 A1 The professional accountant might consider:

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

Documentation

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

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