IFAC
Ethics Committee

July 2003

Exposure Draft

Proposed Revised Code of Ethics for Professional Accountants

Issued for Comment by the International Federation of Accountants

PROPOSED REVISED CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

CONTENTS

PREFACE

i The International Federation of Accountants (IFAC) believes that preparing detailed ethical requirements is primarily the responsibility of the member bodies in each country, which are also responsible for implementing and enforcing such requirements.

ii IFAC also believes that the global identity of the accountancy profession is characterized by its endeavour to achieve a number of common objectives and by its observance of certain fundamental principles for that purpose.

iii IFAC, recognizing the responsibilities of the accountancy profession and considering its own role to be that of establishing high quality standards, providing guidance, encouraging continuity of efforts and promoting harmonization, has deemed it essential to establish an international Code of Ethics for Professional Accountants. This Code will serve as the basis for the ethical requirements (code of ethics, detailed rules, guidelines, standards of conduct, etc.) for professional accountants in each country.

iv No member body or firm is allowed to apply less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts of this Code.

PART A

SECTION 1

Application of the Code

1.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest professional accountants should observe and comply with the ethical requirements of this Code.

1.2 This Code is in three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. Part B demonstrates how the conceptual framework is to be applied by professional accountants in public practice and Part C demonstrates how the conceptual framework is to be applied by professional accountants in business.

Fundamental Principles

1.3 All professional accountants are required to comply with the following fundamental principles:

(a) *Integrity*
A professional accountant should be straightforward and honest in all professional and business relationships.

(b) *Objectivity*
A professional accountant should not allow prejudice or bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) *Professional Competence and Due Care*
A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives the competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

(d) *Confidentiality*
A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should 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. Confidential information acquired as a result

of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

(e) *Professional Behavior*

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 2 – 6.

Framework Approach

1.4 The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires professional accountants to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This Code provides a framework to assist professional accountants to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than **clearly insignificant**, professional accountants should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

1.5 Professional accountants have an obligation to evaluate any threats to compliance with the fundamental principles when they know, or could reasonably be expected to know, of circumstances or relationships that might compromise compliance with the fundamental principles.

1.6 Professional accountants should take qualitative as well as quantitative factors into account when considering the significance of a threat. If a professional accountant cannot implement appropriate safeguards, the professional accountant should decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).

1.7 A professional accountant may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.

1.8 Parts B and C of this Code include examples that are intended to demonstrate how the conceptual framework is to be applied. The examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for a professional accountant merely to comply with the examples presented; rather, the principles should be applied to the particular circumstances encountered by the professional accountant.

Threats and Safeguards

1.9 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Threats fall into the following categories:

(a) Self-interest threats, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family member;

(b) Self-review threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;

(c) Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;

(d) Familiarity threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and

(e) Intimidation threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

Parts B and C of this Code, respectively, provide examples of circumstances that may create these categories of threat for professional accountants in public practice and professional accountants in business.

1.10 Safeguards that may eliminate or reduce such 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.

1.11 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

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

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

1.13 Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organization, include, but are not restricted to:

- Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.

- An explicitly stated duty to report breaches of ethical requirements.

1.14 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising their judgment, professional accountants should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.

Ethical Conflict Resolution

1.15 In applying standards of ethical conduct, a professional accountant may encounter problems in resolving an ethical conflict. When faced with significant ethical issues, a professional accountant should follow the established policies of the professional accountant's firm, employing organization or professional body to resolve the conflict.

1.16 When initiating either a formal or informal conflict resolution process, a professional accountant should consider the following, either individually or together with others, as part of 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 these issues, a professional accountant should determine the appropriate course of action that is consistent with the fundamental principles identified. The professional accountant should also weigh the consequences of each possible course of action. If the matter remains unresolved, the professional accountant should approach other appropriate persons within the firm or employing organization for help in obtaining resolution.

1.17 Where a matter involves a conflict with, or within, an organization, a professional accountant should also consider approaching the audit committee or other body responsible for governance of that organization.

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

1.19 If a significant conflict cannot be resolved, a professional accountant may wish to consult with the relevant professional body, which may be able to provide guidance on ethical issues without breaching confidentiality. A professional accountant may also decide to seek legal advice.

1.20 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant should, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant may determine that, 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.

SECTION 2

Integrity

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

2.2 A professional accountant should not, except, for example, when providing a modified report, be associated with reports, returns, communications or other information where they believe 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.

SECTION 3

Objectivity

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

3.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that prejudice, bias or unduly influence the professional judgment of the professional accountant should be avoided.

SECTION 4

Professional Competence and Due Care

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

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

(b) To act diligently in accordance with applicable technical and professional standards when proving professional services.

4.2 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

4.3 The Education Committee of the International Federation of Accountants establishes standards of generally accepted good practice in the education and development of professional accountants. The standards are important in developing and maintaining professional competence.

4.4 A professional accountant should also take steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

4.5 The maintenance of professional competence requires a continuing awareness and understanding of relevant technical professional and business developments. Continuing professional development develops and maintains the capabilities to enable a professional accountant to perform competently within the professional environments.

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

4.7 Where appropriate, a professional accountant should make users, clients or employers aware of limitations inherent in services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

SECTION 5

Confidentiality

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

(a) Disclosing outside the firm or employing organization 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.

5.2 A professional accountant should maintain confidentiality even in a social environment, particularly in circumstances where long association with a business associate or a close or immediate family relationship might result in the professional accountant being less alert to the possibility of being inadvertently indiscreet.

5.3 A professional accountant should also maintain confidentiality regarding information disclosed by a prospective client or employer.

5.4 A professional accountant should also consider the need to maintain confidentiality within the firm or employing organization.

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

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

5.7 The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a) Disclosure is permitted by law and is authorized by the client or the employer;

(b) Disclosure is required by law, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings;

(ii) 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 professional accountant in legal proceedings; or

(iv) To comply with technical standards and ethics requirements;

5.8 In deciding whether to disclose confidential information, professional accountants should consider the following points:

(a) Whether the interests of all parties, including third parties whose interests might be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant;

(b) 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 should be used in determining the type of disclosure to be made, if any; and

(c) The type of communication that is expected and to whom it is addressed; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

SECTION 6

Professional Behavior

6.1 The principle of professional behavior imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that might bring discredit to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively effects the good reputation of the profession.

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

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

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

PART B:
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 7

Introduction

7.1 This Part of the Code demonstrates how the conceptual framework contained in Part A is to be applied by professional accountants in public practice. Where the term professional accountants is used in this Part, it should be taken to refer to professional accountants in public practice.

7.2 The examples in the following sections are intended to demonstrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant in public practice that may create threats to compliance with the principles. Consequently, it is not sufficient for a professional accountant merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances faced.

7.2 A professional accountant in public practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and that would be incompatible with the rendering of professional services.

Threats and Safeguards

7.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed more fully in Part A of this Code.

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, a non-audit assurance client or a non-assurance client.

7.4 Examples of circumstances that may create self-interest threats for professional accountants in public practice include, but are not limited to:

- A financial interest in a client or jointly holding a financial interest with a client.
- Undue dependence on total fees from a client.
- Having a close business relationship with a client.
- Concern about the possibility of losing a client.
- Potential employment with a client.
- Contingent fees relating to an assurance engagement.
- A loan to or from an assurance client or any of its directors or officers

7.5 Examples of circumstances that may create self-review threats include, but are not limited to:

- The discovery of a significant error during a re-evaluation.
- Reporting on the operation of financial systems after being involved in their design or implementation.
- Having prepared the original data used to generate records that are the subject matter of the engagement.
- A member of the assurance team being, or having recently been, a director or officer of that client.
- A member of the assurance team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.
- Performing a service for a client that directly affects the subject matter of the assurance engagement.

7.6 Examples of circumstances that may create advocacy threats include, but are not limited to:

- Promoting shares in a listed entity when that entity is an audit client.
- Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.

7.7 Examples of circumstances that may create familiarity threats include, but are not limited to:

- A member of the engagement team having a close or immediate family relationship with a director or officer of the client.

- A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
- A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
- Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
- Long association of a senior member of the assurance team with the client.

7.8 Examples of circumstances that may create intimidation threats include, but are not limited to:

- Being threatened with dismissal or replacement in relation to a client engagement.
- Being threatened with litigation.
- Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

7.9 A professional accountant may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, a professional accountant should always be on the alert for such circumstances and threats.

7.10 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 1.17 of Part A of this Code.

7.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement specific safeguards. A professional accountant should exercise judgment to determine how to best deal with an identified threat. In exercising this judgment a professional accountant should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

7.12 Firm-wide safeguards in the work environment may 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 identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level.
- 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 those assurance clients and related entities from which they must be independent.
- 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.

7.13 Engagement-specific safeguards in the work environment may include:

- Involving an additional professional accountant to review the work done or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.

- Involving another firm to perform or re-perform part of the engagement.
- Rotating senior assurance team personnel.

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

7.15 Safeguards within the client's systems and procedures may include:

- When a client appoints a firm in public practice to perform an engagement, persons other than management ratify or approve the appointment.
- 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 8

Professional Appointment

Client Acceptance

8.1 Before accepting a new client relationship, a professional accountant should consider whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity may be created from, for example, questionable issues associated with the client (its owners, management and activities).

8.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.

8.3 The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

8.4 Appropriate safeguards might 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 improve corporate governance practices or internal controls.

8.5 Where it is not possible to reduce the threats to an acceptable level, professional accountants should decline to enter into the client relationship.

8.6 Acceptance decisions should be periodically reviewed for recurring client engagements.

Engagement Acceptance

8.7 A professional accountant in public practice should agree to provide only those services that the professional accountant is competent to perform. Before accepting a specific client engagement, a professional accountant should consider 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.

8.8 A professional accountant should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may 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.
- Complying with quality control policies and procedures designed to provide a reasonable assurance that specific engagements are accepted only when they can be performed competently.

8.9 When a professional accountant intends to rely on the advice or work of an expert the professional accountant should evaluate whether such reliance is warranted. The professional accountant would have regard to factors such as 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

8.10 A professional accountant who is asked to replace another professional accountant, or who is considering tendering for an engagement currently held by another professional accountant, should determine whether there are any professional or other reasons, such as circumstances that threaten compliance with the fundamental principles, for not accepting the engagement. For example, there may be a threat to professional competence and due care if a professional accountant accepts the engagement before knowing all the pertinent facts.

8.11 The significance of the threats should be evaluated. Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances behind the proposed change so that the professional accountant can decide whether it would be appropriate 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 existing accountant that may influence the decision as to whether to accept the appointment.

8.12 An existing accountant is bound by confidentiality. The extent to which the professional accountant can and should 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.

8.13 In the absence of specific instructions by the client, an existing accountant should not ordinarily volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 5 of Part A of this Code.

8.14 If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

8.15 Such safeguards may include:

Discussing the client's affairs fully and freely with the existing accountant;

Asking the existing accountant to provide known information on any facts or circumstances, that, in the existing accountant's opinion, the proposed accountant should be aware of before deciding whether to accept the engagement;

When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing 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.

8.16 A professional accountant will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion with an existing accountant. Once that permission is obtained, the existing accountant should comply with relevant legal and other regulations governing such requests. Where the existing accountant provides information, it should be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing accountant, the proposed accountant should try to obtain information about any possible threats by other means such as through inquiries of third parties or background investigations on senior management or those charged with governance of the client.

8.17 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice should, unless there is satisfaction as to necessary facts by other means, decline the engagement.

8.18 A professional accountant may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include 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.

SECTION 9

Conflicts of Interest

9.1 A professional accountant should take reasonable steps to avoid circumstances that could pose a conflict of interests. Such circumstances may give rise to threats to compliance with the fundamental principles. For example, a self-interest threat to objectivity is created when a professional accountant compete directly with a client or has a joint venture or similar arrangement with a major competitor of the client. A self-interest threat to objectivity may also be created when a professional accountant performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.

9.2 A professional accountant should evaluate the significance of any threats created. Evaluation includes considering, before accepting or continuing a new client relationship or specific engagement, whether the professional accountant has any relationships with the client or a third party that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

9.3 Safeguards will ordinarily include professional accountants when permitted to do so by the affected clients:

Notifying all known relevant parties that the professional accountant is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act.

Notifying all known relevant parties that the professional accountant has relationships with clients or third parties that could give rise to conflicts of interest.

Notifying all known relevant parties whose respective interest may conflict that the professional accountant is not acting exclusively for them in relation to a matter and obtaining their consent to so act.

9.4 Generally the following additional safeguards should be applied:

The use of separate engagement teams, with separate internal reporting lines.

Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing).

Clear guidelines for members of the engagement team on issues of security and confidentiality.

Regular review of the application of safeguards by a senior individual not involved with either client engagement.

Policies and procedures for dealing with conflicts of interest.

9.5 Where a threat cannot be eliminated or reduced to an acceptable level through the application of safeguards, the professional accountant should conclude that it is not appropriate to accept a specific engagement or that resignation from one or more conflicting engagements is required.

9.6 Where a professional accountant has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, then they must not continue to act for one of the parties in the matter giving rise to the conflict of interest.

SECTION 10

Second Opinions

10.1 Situations where professional accountants in public practice are asked to provide an 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 significance of the 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.

10.2 When asked to provide such an opinion, professional accountants should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards will ordinarily include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.

10.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, professional accountants should consider whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

SECTION 11

Fees and Other Types of Remuneration

11.1 When entering into negotiations regarding professional services, a professional accountant may quote whatever fee deemed to be appropriate. The fact that one professional 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.

11.2 The significance of such threats will depend on factors such as the level of fee quoted and the services to which it applies. In view of these potential threats, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards which may be adopted 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.

Assigning appropriate time and qualified staff to the task.

11.3 Contingent fees are widely used for certain types of non-assurance engagements.[2] They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. For example, a self-interest threat to objectivity may be created when a contingent fee is agreed on but is not considered normal professional or business practice for the type of engagement in question. The significance of such threats will depend on factors including:

- The degree of objectivity required for 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.

11.4 The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards might include:

- An advance written agreement with the client as to the basis of remuneration.
- Disclosure of the work the professional accountants have done and the basis of remuneration for any document they have prepared in contemplation that a third party may (with their agreement) rely on it.
- Quality control policies and procedures.
- Review of the work done by an objective third party.

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

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

11.7 A professional accountant should not pay a referral fee or receive such a fee or commission unless the professional accountant has established safeguards to

[2] Contingent fees for assurance engagements are discussed in Section 8 of this part of the Code

eliminate the threats or reduce them to an acceptable level. Such safeguards would normally include:

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

118 A professional accountant may purchase all or part of a firm with the proviso 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 paragraph 11.5 – 11.7 above.

SECTION 12

Marketing Professional Services

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

12.2 A professional accountant should not bring the profession into disrepute when marketing professional services. The professional accountant should be honest and truthful and should not:

- Make exaggerated claims for services offers, qualifications possessed or experience gained; or
- Make disparaging references to unsubstantial comparisons to the work of another.

If the professional accountant is in doubt whether a proposed form advertising or marketing is appropriate, the professional accountant should consult with the relevant professional body.

SECTION 13

Gifts and Hospitality

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

13.2 The significance of such threats will depend on the nature, value and intent behind the offer. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider insignificant are made a professional 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 professional accountant may generally conclude that there is no significant threat to compliance with the fundamental principles.

13.3 If evaluated threats are other than clearly insignificant, a professional accountant should not accept such an offer.

SECTION 14

Custody of Client Assets

14.1 Professional accountants should assume custody of client monies or other assets only where permitted to do so by law and having regard to any additional legal duties imposed on professional accountants in public practice holding such assets.

14.2 The holding of client assets creates threats to compliance with the fundamental principles for example there is a self-interest threat to professional behavior and may be a self interest threat to objectivity arising from holding client assets. To safeguard against such threats, a professional accountant entrusted with money (or other assets) belonging to others should:

(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 law and regulations relevant to the holding of and accounting for such assets.

14.3 In addition, professional accountants should be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were found to derive from illegal activities, such as money laundering. As part of client and engagement acceptance procedures for such services, professional accountants should make appropriate enquiries about the source of such assets and should consider their legal and regulatory obligations. They may also consider seeking legal advice.

SECTION 15

Objectivity on Non-assurance engagements

15.1 A professional accountant in public practice should consider whether there are threats to compliance with the fundamental principles resulting from having interests in, or relationships with, the client entity or its personnel. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.

15.2 A professional accountant should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may 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.

SECTION 16

Independence

Assurance Engagements

16.1 It is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams,**[*] firms and, when applicable, **network firms**[*] be independent of **assurance clients**.[*]

16.2 Assurance engagements are intended to enhance the credibility of information about a subject matter by evaluating whether the subject matter conforms in all material respects with suitable criteria. The International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board describes the objectives and elements of assurance engagements to provide either a high or a moderate level of assurance. The International Auditing and Assurance Standards Board has also issued specific standards for certain assurance engagements. For example, International Standards on Auditing provide specific standards for audit (high level assurance) and review (moderate level assurance) of financial statements.

Paragraphs 8.3 through 8.6 are taken from the International Standard on Assurance Engagements and describe the nature of an assurance engagement. These paragraphs are presented here only to describe the nature of an assurance engagement. To obtain a full understanding of the objectives and elements of an assurance engagement it is necessary to refer to the full text contained in the International Standard on Assurance Engagements.

16.3 Whether a particular engagement is an assurance engagement will depend upon whether it exhibits all the following elements:

(a) A three party relationship involving:

(i) A professional accountant;

(ii) A responsible party; and

(iii) An intended user;

[*] See Definitions.

(b) A subject matter;

(c) Suitable criteria;

(d) An engagement process; and

(e) A conclusion.

The responsible party and the intended user will often be from separate organizations but need not be. A responsible party and an intended user may both be within the same organization. For example, a governing body may seek assurance about information provided by a component of that organization. The relationship between the responsible party and the intended user needs to be viewed within the context of a specific engagement.

16.4 There is a broad range of engagements to provide a high or moderate level of assurance. Such engagements may include:

- Engagements to report on a broad range of subject matters covering financial and non-financial information;
- Attest and direct reporting engagements;
- Engagements to report internally and externally; and
- Engagements in the private and public sector.

16.5 The subject matter of an assurance engagement may take many forms, such as the following:

- Data (for example, historical or prospective financial information, statistical information, performance indicators).
- Systems and processes (for example, internal controls).
- Behavior (for example, corporate governance, compliance with regulation, human resource practices).

16.6 Not all engagements performed by professional accountants are assurance engagements. Other engagements frequently performed by professional accountants that are not assurance engagements include:

- Agreed-upon procedures;
- Compilation of financial or other information;
- Preparation of tax returns when no conclusion is expressed, and tax consulting;
- Management consulting; and
- Other advisory services.

16.7 Independence requires:

(a) Independence of Mind

The state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

16.8 The use of the word "independence" on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.

16.9 Firms and members of assurance teams have an obligation to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards. In addition to identifying and evaluating relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.

16.10 The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual engagement: whether the assurance engagement is an **audit engagement**[*] or another type of engagement; and in the case of an assurance engagement that is not an audit engagement, the purpose, subject matter and intended users of the report. A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement and the threats to independence in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team.

16.11 Audit engagements provide assurance to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for **audit clients**,[*] the members of the assurance team, the firm and network firms are required to be independent of the audit client. Similar considerations in the case of assurance engagements provided to non-audit assurance clients require the members of the assurance team and the firm to be independent of the non-audit assurance client. In the case of these engagements, consideration should be

[*] See Definitions.

given to any threats that the firm has reason to believe may be created by network firm interests and relationships.

16.12 In the case of an assurance report to a non-audit assurance client expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria by which the subject matter are to be evaluated. This knowledge and enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this section in evaluating the independence of members of the assurance team and their **immediate** and **close family**. [*] Further, 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 no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

16.13 Accordingly:

(a) For assurance engagements provided to an audit client, the members of the assurance team, the firm and network firms are required to be independent of the client;

(b) For assurance engagements provided to clients that are not audit clients, when the report is not expressly restricted for use by identified users, the members of the assurance team and the firm are required to be independent of the client; and

(c) For assurance engagements provided to clients that are not audit clients, when the assurance report is expressly restricted for use by identified users, the members of the assurance team are required to be independent of the client. In addition, the firm should not have a material **direct** or **indirect financial interest**[*] in the client.

These independence requirements for assurance engagements are illustrated as follows:

[*] See Definitions.

<table>
<tr><th rowspan="2">Client</th><th colspan="3">Type of Assurance Engagement</th></tr>
<tr><th>Audit</th><th>Non-audit – not restricted use</th><th>Non-audit – restricted use</th></tr>
<tr><td>Audit client</td><td colspan="3">Assurance team, firm and network firms</td></tr>
<tr><td>Non-audit assurance client</td><td></td><td>Assurance team and firm</td><td>Assurance team and firm has no material financial interest</td></tr>
</table>

16.14 The threats and safeguards identified in this section are generally discussed in the context of interests or relationships between the firm, network firms, a member of the assurance team and the assurance client. In the case of a listed audit client, the firm and any network firms are required to consider the interests and relationships that involve that client's related entities. Ideally those entities and the interests and relationships should be identified in advance. For all other assurance clients, 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 should consider that related entity when evaluating independence and applying appropriate safeguards.

16.15 The evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm, a network firm or a member of the assurance team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence. There may be occasions when the firm, a network firm or an individual inadvertently violates this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to an assurance client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

Objective and Structure of this Section

16.16 The objective of this section is to assist firms and members of assurance teams in:

(d) Identifying threats to independence;

(e) Evaluating whether these threats are clearly insignificant; and

(f) In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement.

[*] See Definitions.

16.17 This section concludes with some examples of how this conceptual approach to independence is to be applied to specific circumstances and relationships. The examples discuss threats to independence that may be created by specific circumstances and relationships (paragraphs 8.100 onwards). Professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level. In certain examples, the threats to independence are so significant the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement. In other examples, the threat can be eliminated or reduced to an acceptable level by the application of safeguards. The examples are not intended to be all-inclusive.

16.18 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

16.19 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities might include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the audit of listed entities. Consideration should be given to the application of the principles set out in this section in relation to the audit of listed entities to other audit clients that may be of significant public interest.

16.20 Audit committees can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm is independent in carrying out its audit role. There should be regular communications between the firm and the audit committee (or other governance body if there is no audit committee) of listed entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence.

16.21 Firms should establish policies and procedures relating to independence communications with audit committees, or others charged with governance of the client. In the case of the audit of listed entities, the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the audit client that in the firm's professional judgment may reasonably be thought to bear on independence. Matters to be communicated will vary in each circumstance and should be decided by the firm, but should generally address the relevant matters set out in this section.

Engagement Period

16.22 The members of the assurance team and the firm should be independent of the assurance client during the period of the assurance engagement. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

16.23 In the case of an audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes an audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by:

- Financial or business relationships with the audit client during or after the period covered by the financial statements, but prior to the acceptance of the audit engagement; or
- Previous services provided to the audit client.

Similarly, in the case of an assurance engagement that is not an audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence.

16.24 If non-assurance services were provided to the audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the audit and those services would be prohibited during the period of the audit engagement, consideration should be given to the threats to independence, if any, arising from those services. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing independence issues related to the provision of the non-assurance services with those charged with governance of the client, such as the audit committee;
- Obtaining the audit client's acknowledgement of responsibility for the results of the non-assurance services;
- Precluding personnel who provided the non-assurance services from participating in the audit engagement; and
- Engaging another firm to review the results of the non-assurance services or having another firm re-perform the non-assurance services to the extent necessary to enable it to take responsibility for those services.

16.25 Non-assurance services provided to a non-listed audit client will not impair the firm's independence when the client becomes a listed entity provided:

(a) The previous non-assurance services were permissible under this section for non-listed audit clients;

(b) The services will be terminated within a reasonable period of time of the client becoming a listed entity, if they are impermissible under this section for listed audit clients; and

(c) The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous services or reduce them to an acceptable level.

Effective Date

16.26 This section is applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is encouraged.

Examples

16.100 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all-inclusive. In practice, the firm, network firms and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 8.37 through 8.42 can be applied to satisfactorily address the threats to independence.

16.101 Some of the examples deal with audit clients while others deal with assurance clients that are not audit clients. The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team, the firm and network firms to be independent of an audit client, and for the members of the assurance team and the firm to be independent of an assurance client that is not an audit client. The examples do not include assurance reports to a non-audit assurance client expressly restricted for use by identified users. As stated in paragraph 8.15 for such engagements, members of the assurance team and their immediate and close family are required to be independent of the assurance client. Further, the firm should not have a material financial interest, direct or indirect, in the assurance client.

NB
Remainder of Section 8 had not been reproduced here.

PART C: PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 17

Introduction

17.1 This Part of the Code demonstrates how the conceptual framework contained in Part A is to be applied by professional accountants in business. Where the term professional accountant is used in this Part, it should be taken to refer to a professional accountant in business.

17.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations 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.

17.3 A professional accountant may be a salaried employ, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organization. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant.

17.4 A professional accountant has a responsibility to further the legitimate aims of the employing organization. This Part of the Code does not seek to hinder a professional accountant from properly fulfilling that responsibility, but considers circumstances in which conflicts may be created with the absolute duty to comply with the fundamental principles.

17.5 A professional accountant in business often occupies a senior position within an organization. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant is expected, therefore, to encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior.

17.6 The examples presented in the following sections are intended to demonstrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant in business that may create threats to compliance with the principles. Consequently, it is not sufficient for a professional accountant merely to comply with the examples; rather, the framework should be applied to the particular circumstances faced.

Threats and Safeguards

17.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed more fully in Part A of this Code.

17.8 Examples of circumstances that may create self-interest threats for a professional accountant in business include, but are not limited to:

- Financial interests, loans or guarantees.
- Incentive arrangements.
- Personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organization.

17.9 Circumstances that may create self-review threats include, but are not limited to, business decisions or data being subject to review and justification by the same professional accountant responsible for making those decisions or preparing that data.

17.10 When furthering the legitimate goals and objectives of their employing organizations professional accountants in business may promote the organization's position. Such actions generally would not create an advocacy threat.

17.11 Examples of circumstances that may create familiarity threats include, but are not limited to:

A professional accountant in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.

Long association with business contacts influencing business decisions.

Acceptance of a gift or preferential treatment, unless the value is clearly insignificant.

17.12 Examples of circumstances that may create intimidation threats include, but are not limited to:

- Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
- A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.

17.13 Professional accountants may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In all professional and business relationships, professional accountants should always be on the alert for such circumstances and threats.

17.14 Safeguards that may eliminate or reduce to an acceptable level the threats faced by professional accountants fall into two broad categories:

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

(b) Safeguards in the work environment.

17.15 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 1.17 of Part A of this Code.

17.16 Safeguards in the work environment include, but are not restricted to:

- The employing organization's systems of corporate oversight or other oversight structures.
- The employing organization's ethics and conduct programs.
- Recruitment procedures in the employing organization 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 organization'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 organization any ethical issues that concern them without fear of retribution.

Consultation with another appropriate professional accountant.

17.17In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant may conclude that it is appropriate to resign from the employing organization. In circumstances where a professional accountant believes that unethical behaviors or actions by others will continue to occur within the employing organization, the professional accountant may wish to seek legal advice.

SECTION 18

Potential Conflicts

18.1 A professional accountant has a professional obligation to comply with the fundamental principles. There may be times, however, when their responsibilities to an employing organization and the professional obligations to comply with the fundamental principles are in conflict. Ordinarily, a professional accountant should support the legitimate and ethical objectives established by the employer and the rules and procedures drawn up in support of those objectives. Nevertheless, where compliance with the fundamental principles is threatened, a professional accountant must consider a response to the circumstances.

18.2 As a consequence of responsibilities to an employing organization, a professional accountant may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organization. A professional accountants may face pressure to:

- Act contrary to law or regulation.
- Act contrary to technical or professional standards.
- Facilitate unethical or illegal earnings management strategies.
- Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
  - The auditors of the employing organization; or
  - Regulators.
- Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:
  - The financial statements;
  - Tax compliance;
  - Legal compliance; or
  - Reports required by securities regulators.

18.3. The significance of threats arising from such pressures, such as intimidation threats, should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards might include:

- Obtaining advice where appropriate from within the employing organization, an independent professional advisor or a relevant professional body.
- The existence of a formal dispute resolution process within the employing organization.
- Seeking legal advice.

SECTION 19

Preparation and Reporting of Information

19.1 Professional accountants 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 organization. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. A professional accountant should prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context. A professional accountant should maintain information for which the professional accountant 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.

19.2 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may be created where a professional accountant may be pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.

19.3 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards might include consultation with superiors within the employing organization, for example, the audit committee or other body responsible for governance, or with a relevant professional body.

19.4 Where it is not possible to reduce the threat to an acceptable level, a professional accountant should refuse to remain associated with information they consider is or may be misleading. Should the professional accountant be aware that the issuance of misleading information is either significant or persistent, the professional accountant should consider informing appropriate authorities in line with the guidance in Section 7. The professional accountant may also wish to seek legal advice or resign.

SECTION 20

Acting with Sufficient Expertise

20.1 The fundamental principle of professional competence and due care requires that a professional accountant should only undertake significant tasks for which the professional accountant has, or can obtain, sufficient specific training or experience. A professional accountant should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should a professional accountant fail to seek appropriate expert advice and assistance when required.

20.2 Circumstances that threaten the ability of a professional accountant to perform duties with the appropriate degree of professional competence and due care include:

- 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.

20.3 The significance of such threats will depend on factors such as the extent to which the professional accountant is working with others, relative seniority in the business and the level of supervision and review applied to the work. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards that may be considered 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 organization;
  - Independent experts; or
  - A relevant professional body.

20.4 Where threats cannot be eliminated or reduced to an acceptable level, professional accountants should consider whether to refuse to perform the duties in question. If the professional accountant determines that refusal is appropriate the reasons for doing so should be clearly communicated

SECTION 21

Financial Interests

21.1 Professional accountants may have financial interests, or might know of financial interests of immediate or close family members, that could, in certain circumstances, give rise to 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, but are not limited to situations where the professional accountant 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 professional accountant;

Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant;

Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant;

Holds, directly or indirectly, share options in the employing organization which are, or will soon be, eligible for conversion; or

May qualify for share options in the employing organization or performance related bonuses if certain targets are achieved.

21.2 In evaluating the significance of such a threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, professional accountants must examine the nature of the financial interest. This includes an evaluation of the significance of the financial interest and whether it is direct or indirect. Clearly, what constitutes a significant or valuable stake in an organization will vary from individual to individual, depending on personal circumstances.

21.3 If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards might include:

Policies and procedures for a committee independent of management to determine the level of form of remuneration of senior management.

Disclosure of all relevant interests, and of any plans to 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 the legal restrictions and other regulations around potential insider trading.

21.4 A professional accountant should neither manipulate information nor use confidential information for personal gain.

SECTION 22

Inducements

Receiving Offers of Inducements

22.1 A professional accountant in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.

22.2 Offers of inducements may create threats to compliance with the fundamental principles. When a professional accountant or an immediate or close family member is offered an inducement, the situation should be carefully considered. Self-interest threats to objectivity or confidentiality are created where 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 professional accountant or an immediate or close family member.

22.3 The significance of such threats will depend on the nature, value and intent behind the offer. In a reasonable and informed third party, having knowledge of all relevant information, would consider the inducement insignificant and not intended to encourage unethical behaviour, then a professional accountant may conclude that the offer is made in the normal course business. and may generally conclude that there is no significant threat to compliance with the fundamental principles.

22.4 If evaluated threats are other than clearly insignificant, a professional accountant should 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 should be adopted. A professional accountants should assess the risk associated with all such offers and consider whether the following actions should be taken:

(a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organization;

(b) Inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; professional accountants should, however, consider seeking legal advice before taking such a step; and

(c) Advise 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) Inform higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

Offering Inducements

22.5 A professional accountant be in situations where the professional accountant is expected to, or is under other pressure to, offer inducements to subordinate the judgment of another individual or organization, influence a decision-making process or obtain confidential information.

22.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organization possibly influencing the professional accountant improperly.

22.7 Threats to compliance with the fundamental principles are created in the following circumstances:

A professional accountant experiences pressure from within the employing organization to offer an inducement to subordinate the judgment of another individual or organization, influence a decision-making process or obtain confidential information; or

A third party outside the employing organization asks a professional accountant for an inducement that might influence favorable business decisions or actions.

22.8 A professional accountant should not offer an inducements to improperly influence professional judgment of a third party.

22.9 Where the pressure to offer an such unethical inducement comes from within the employing organization, the professional accountant should follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

Definitions

The shaded definitions have been discussed by either the Section 8 TF or the Network Firm TF]

In this Code of Ethics for Professional Accountants the following expressions have the following meanings assigned to them:

Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Audit client	An entity in respect of which a firm conducts an audit engagement. When the audit client is a listed entity, audit client will always include its related entities.
Audit engagement	An assurance engagement to provide a high level of assurance that financial statements are free of material misstatement, such as an engagement in accordance with International Standards on Auditing. This includes a Statutory Audit which is an audit required by national legislation or other regulation.
Assurance client	An entity in respect of which a firm conducts an assurance engagement.
Assurance Engagement	An engagement conducted to provide: (a) A high level of assurance that the subject matter conforms in all material respects with identified suitable criteria; or (b) A moderate level of assurance that the subject matter is plausible in the circumstances. This would include an engagement in accordance with the International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board or in accordance with specific standards for assurance engagements issued by the International Auditing and Assurance Board such as an audit or review of financial statements in accordance with International Standards on Auditing.

Assurance team	(a) All professionals participating in the assurance engagement; (b) All others within a firm who can directly influence the outcome of the assurance engagement, including: 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. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through the firm's chief executive; those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and those who provide quality control for the assurance engagement; and (c) For the purposes of an audit client, all those within a network firm who can directly influence the outcome of the audit engagement.
Clearly insignificant	A matter that is deemed to be both trivial and inconsequential.
Client account	Any bank account which is used solely for the banking of clients' monies.
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 or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	A financial interest: • Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or • Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.
Directors and officers	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.

Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Firm	(a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; and (c) An entity controlled by such parties.
Immediate family	A spouse (or equivalent) or dependant.
Independence	Independence is: (a) Independence of mind – the states of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional judgment (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had 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.
Lead engagement partner	In connection with an audit, the partner responsible for signing the report on the consolidated financial statements of the audit client, and, where relevant, the partner responsible for signing the report in respect of any entity whose financial statements form part of the consolidated financial statements and on which a separate stand-alone report is issued. When no consolidated financial statements are prepared, the lead engagement partner would be the partner responsible for signing the report on the financial statements.
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.
Network firm	An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

Office	A distinct sub-group, whether organized on geographical or practice lines.
Professional accountant	An individual who is a member of an IFAC member body.
Professional accountant in business	A professional accountant who is not a professional accountant in public practice. This includes a professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
Professional accountant in public practice	A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting)in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.
Professional services	Those services provided to a client by a professional accountant in public practice or to an employing or engaging organization by a professional accountant in business.
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 provided the client is material to such entity; (b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity; (d) An entity over which the client has direct or indirect control; (e) 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 (f) An entity which is under common control with the client (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.
Solicitation	The approach to a potential client for the purpose of offering professional services.