

## Agenda Item 4-C

**NOTE TO IESBA: THESE SCHEDULES ARE NOT PROPOSALS. THEY HAVE BEEN DEVELOPED TO EXPLORE THE PRINCIPLES, RATHER THAN PRECISE WORDING.**

### PART A - GENERAL APPLICATION OF THE CODE

#### Scope of this Part:

Paragraphs 100.1 through 150.2 set out the fundamental principles, conceptual framework approach, including threats and safeguards, and the approach to ethical conflict resolution that form the basis of the IESBA Code of Ethics for Professional Accountants and apply to all professional accountants and firms.

#### HOW TO USE THIS CODE

100.2 This Code contains three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants, using their professional judgment, are required to apply in order to:

- (a) Identify threats to compliance with the fundamental principles;
- (b) Evaluate the significance of the threats identified; and
- (c) Either
  - (i) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level, or
  - (ii) Decline or discontinue an engagement when safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.

Safeguards are necessary when the professional accountant determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

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

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

100.11 When a professional accountant encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an

**Commented [SS1]:** This is a new section moved from 100.2, .3, .4 & .11

**Commented [SS2]:** Consider whether it is possible to rely on a description of a reasonable and informed third party instead of repeating it throughout.

Structure of the Code – A Possible Approach to Restructuring Parts A and B (clean)  
*IESBA Meeting (April 2014)*

outcome that may not be in the public interest, it is recommended that the professional accountant consult with a member body or the relevant regulator

## SECTION 100

### FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

#### Purpose of this section:

100.1 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.

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This section of this Code establishes requirements and provides guidance for professional accountants with respect to the fundamental principles, the conceptual framework approach which includes addressing threats to those fundamental principles and implementing safeguards, and the approach to ethical conflict resolution that are fundamental to acting in the public interest.

#### Requirements:

##### GENERAL REQUIREMENTS:

100.GENNEW1 A professional accountant shall comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant shall comply with all other parts of this Code.

Commented [SS4]: From 100.1

100.GENNEW2 Despite the requirements set out in 100.GENNEW1,

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- (a) when a professional accountant identifies a breach of a provision of this Code, the professional accountant shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The professional accountant shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The accountant shall also determine whether to report the breach to those who may have been affected by the breach, a member body, relevant regulator or oversight authority, or others, and
- (b) when a professional accountant identifies a breach of a provision of Sections 290 and 291 of this Code, the professional accountant shall comply with those provisions of Sections 290 and 291 that establish the requirements for professional accountants to address such breaches.

100.NEW1 A professional accountant shall comply with the following fundamental principles:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- (c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession. (X-Ref 105)

Commented [CJ6]: X-Ref cross references the requirement to related Application and other Explanatory Material

100.NEW2 A professional accountant shall use professional judgment to apply the fundamental principles of professional ethics for professional accountants and the conceptual framework set out in this Code to:

Commented [SS7]: From 100 .2

- (a) Identify threats to compliance with the fundamental principles;
- (b) Evaluate the significance of the threats identified; and
- (c) Either
  - (i) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level, or
  - (ii) When the threats cannot be eliminated or reduced to an acceptable level, decline or discontinue the specific professional service involved or, when necessary, resign from the engagement or from the organization employing the professional accountant. (X-Ref:100.6, .7, .8, .9)

Commented [SS8]: from 100.9

100NEW3 In complying with the provisions set out in Paragraph 100.NEW1 and 2, a professional accountant shall:

- (a) evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles; (X-Ref:100.8)
- (b) take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised; (X-Ref:100.7); and
- (c) take qualitative as well as quantitative factors into account when evaluating the significance of a threat. (X-Ref:100.9)

100.NEW4 When resolving a conflict in complying with the fundamental principles:

- (a) the professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action;
- (b) if the matter involves a conflict with, or within, an organization, the professional accountant shall determine whether to consult with those charged with governance of the organization, such as the board of directors or the audit committee; and

- (c) if, after exhausting all relevant possibilities the ethical conflict remains unresolved, the professional accountant shall, where possible, refuse to remain associated with the matter creating the conflict and shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

#### Application and Other Explanatory Material:

##### *Fundamental Principles*

- 100.5 Each of the fundamental principles with which professional accountant is required to comply, as set out in Paragraph 100.NEW1 is discussed in more detail in Sections 110–150. (X-Ref: 100NEW1)

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##### *Conceptual Framework Approach*

- 100.6 The circumstances in which professional accountants operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited. (X-Ref: 100NEW2(a))

##### *Threats, Evaluation of Threats, and Safeguards*

##### *Threats*

- 100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:
- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior;
  - (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service;

- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant. (X-Ref:100NEW2(a))

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

#### *Evaluation of Threats*

- 100.7 When a professional accountant identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the professional accountant determines whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. In making that determination, the professional accountant exercises professional judgment and takes into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised. (X-Ref:100NEW2(b) & 100NEW3(b))

#### Safeguards

- 100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
  - (b) Safeguards in the work environment. (X-Ref:100NEW2(c))
- 100.14 Safeguards created by the profession, legislation or regulation include:
- Educational, training and experience requirements for entry into the profession.
  - Continuing professional development requirements.
  - Corporate governance regulations.
  - Professional standards.
  - Professional or regulatory monitoring and disciplinary procedures.

**Commented [SS11]:** Replaced by new language from the new "Breaches" provisions in 100GENEW2.

- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant. (X-Ref:100NEW2(c))

100.15 Safeguards may be available to professional accountants in business in the form of systems and procedures that have been implemented by the organization that employs such professional accountants. Such systems and procedures may also be considered by a professional accountant in public practice in the evaluation of the significance of a specific threat to independence, as set out Sections 290 and 291. However, professional accountants in public practice also need to rely on the firm-wide safeguards or engagement-specific safeguards that are available to them in order to comply with the fundamental principles. Parts B and C of this Code discuss safeguards in the work environment for professional accountants in public practice and professional accountants in business, respectively.

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

- Effective, well-publicized complaint 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. (X-Ref:100NEW2(c))

#### *Ethical Conflict Resolution*

100.17 A professional accountant may be required to resolve a conflict in complying with the fundamental principles. (X-Ref:100NEW3)

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

- Relevant facts;
- Ethical issues involved;
- Fundamental principles related to the matter in question;
- Established internal procedures; and
- Alternative courses of action.

The professional accountant may wish to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution. (X-Ref:100NEW3)

100.20 It may be in the best interests of the professional accountant to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue. (X-Ref:100NEW3)

100.21 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching

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the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the professional accountant may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report. (X-Ref100NEW3)

## Section 1 SECTION 210

### Professional Appointment

#### Purpose of this section:

Professional accountants in public practice may encounter circumstances in relation to their appointments as professional service providers that create threats to their compliance with each of the fundamental principles.

There are a wide variety of situations that may threaten compliance with the fundamental principles and to which the conceptual framework applies, particularly when a professional accountant is involved in a change in professional appointment or in accepting a new client or engagement.

The provisions of Paragraphs 100NEW1 and 100NEW2 require a professional accountant to comply with each of the fundamental principles of professional ethics and apply the conceptual framework in relation to threats to those fundamental principles. This section sets out additional requirements and provides guidance related to professional appointments.

#### Requirements:

**210. NEW1** When acceptance of a professional engagement requires a professional accountant in public practice to rely on the advice or work of an expert, the professional accountant in public practice shall determine whether such reliance is warranted.(X-Ref: 210.8)

210.NEW2

- (a) When a professional accountant in public practice is asked by a potential client to
  - (i) replace,
  - (ii) consider tendering for an engagement held by, or
  - (iii) undertake work that is complementary or additional to ,

another professional accountant in public practice, the proposed professional accountant shall generally need to obtain the potential client's permission, preferably in writing, to initiate discussion with the existing professional accountant. (X-Ref: 210.9, .10, .11, .12,.13, .14)

- (b) In such circumstances,
  - (i) the existing professional accountant shall comply with relevant legal and other regulations governing such requests,
  - (ii) where the existing professional accountant provides information, it shall be provided honestly and unambiguously, and
  - (iii) if the proposed professional accountant is unable to communicate with the existing accountant, the proposed professional accountant shall take other reasonable steps to obtain information about any possible threats to compliance with the fundamental principles.(X-Ref:210.14)

**Commented [SS14]:** Moved up above safeguards as part of discussion of new separate "evaluation of threats" section.

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**Application and Other Explanatory Material:**

*Client Acceptance*

- 210.1 Applying the threats and safeguards approach requires a professional accountant in public practice to determine whether acceptance would create any threats to compliance with the fundamental principles before accepting a new client relationship. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management or activities).
- 210.2 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.

Examples of safeguards that may be available to address any such threat 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.

- 210.5 It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements.

*Engagement Acceptance*

- 210.6 The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Applying the threats and safeguards approach requires a professional accountant in public practice to determine whether acceptance would create any threats to compliance with the fundamental principles before accepting a new client relationship before accepting a specific client engagement. 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.

Examples of safeguards that may be available to address any such threat include:

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed;
- Acquiring knowledge of relevant industries or subject matters;
- Possessing or obtaining experience with relevant regulatory or reporting requirements;
- Assigning sufficient staff with the necessary competencies;
- Using experts where necessary;
- Agreeing on a realistic time frame for the performance of the engagement; or

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

210.8 Factors to consider when a professional accountant in public practice intends to rely on the advice or work of an expert include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.(X-Ref:210.NEW1)

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#### *Changes in a Professional Appointment*

210.9 Applying the threats and safeguards approach requires a professional accountant in public practice who is asked to replace another professional accountant in public practice, or who is considering tendering for an engagement currently held by another professional accountant in public practice, to determine whether there are any reasons, professional or otherwise, for not accepting the engagement. For example, there may be a threat to professional competence and due care if a professional accountant in public practice accepts the engagement before knowing all the pertinent facts.

210.10 In such circumstances, the nature of the engagement may require direct communication with the existing accountant to establish the facts and circumstances regarding the proposed change so that the professional accountant in public practice 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 to accept the appointment.

210.11 Examples of safeguards that may be available to address any such threat include:

- 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;
- Asking the existing accountant to provide known information on any facts or circumstances that, in the existing accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources.

210.12 A professional accountant in public practice may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information.. An example of a safeguard is notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

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

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

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

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