

(CLEAN)

Foreword and PART A – Introduction and Fundamental Principles and Objectivity

Purpose of this Code

000.001 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 the course of revising the Code this foreword will be developed to give an overview of the Code and will include helpful material for users of the Code.

Extant defined terms have been italicized throughout this text to denote the frequency of use.

References to paragraph numbers ending in .999 are place markers being used until the whole of the Code has been reviewed and renumbered

PART A – GENERAL APPLICATION OF THE CODE

Purpose of Part A

- 100.001 Paragraphs 100.001 to 160.999 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

- 100.002 This Code contains four parts. Part A establishes the fundamental principles of professional ethics for [professional accountants](#) and provides a conceptual framework that [firms](#) and [professional accountants](#), using 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](#).
- 100.003 Safeguards are necessary when the [firm](#) or [professional accountant](#) determines that the threats are not at an [acceptable level](#). That is 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.
- 100.004 Parts B, C and D describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, require that the circumstance or relationship creating the threats be avoided. Parts B and D apply to [firms](#) and [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.
- 100.005 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.
- 100.006 A [professional accountant](#) or [firm](#) may encounter unusual circumstances regarding the application of the Code. This might occur when the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest. If such circumstances apply the [professional accountant](#) is advised to consult with a professional regulatory body or another relevant regulator.

SECTION 110

Fundamental Principles and Conceptual Framework

Purpose of this Section

110.001 This section of this Code establishes requirements and provides guidance for [professional accountants](#) and [firms](#) regarding:

- (a) the fundamental principles;
 - (b) the conceptual framework approach which includes addressing threats to those fundamental principles and implementing safeguards; and
 - (c) the approach to ethical conflict resolution,
- that are fundamental to acting in the public interest.

Requirements

Requirement to Comply with the Code

110.002 A [professional accountant](#) and [firm](#) shall comply with this Code. There may be circumstances when a [professional accountant](#) or [firm](#) is prohibited from complying with certain parts of this Code by law or regulation. In that event the [professional accountant](#) or [firm](#) shall comply with all other parts of this Code.

Breach of a Provision of the Code

- 110.003 Notwithstanding the requirements set out in paragraph 110.002,
- (a) When a [professional accountant](#) or [firm](#) identifies a breach of a provision of this Code, the [professional accountant](#) or [firm](#) shall evaluate the significance of the breach. The [professional accountant](#) or [firm](#) shall also evaluate its impact on the [professional accountant](#)'s or [firm](#)'s ability to comply with the fundamental principles. The [professional accountant](#) or [firm](#) shall take whatever actions may be available, as soon as possible, to satisfactorily address the consequences of the breach. The [professional accountant](#) or [firm](#) shall also determine whether to report the breach to those who may have been affected by the breach, a professional regulatory body, another relevant regulator or oversight authority, or others; and
 - (b) Specific requirements apply when a [professional accountant](#) or [firm](#) identifies a breach of a provision of Sections 400 to 499 and 500 to 599 of this Code. The [professional accountant](#) or [firm](#) shall comply with those provisions of Sections 400 to 499 and 500 to 599 that establish the requirements for [professional accountants](#) and [firms](#) to address such breaches.

Fundamental Principles

- 110.004 A [professional accountant](#) and [firm](#) shall comply with the following fundamental principles:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
 - (b) Objectivity – to provide professional or business judgments without bias, conflict of interest or undue influence of others.
 - (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 therefore, not:
 - (i) Disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose; or
 - (ii) Use the information for the personal advantage of the [professional accountant](#), the [firm](#) or third parties.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Applying Threats and Safeguards

- 110.005 A [professional accountant](#) or [firm](#) shall use professional judgment to apply the fundamental principles and the conceptual framework set out in this Code to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the significance of the threats identified; and
 - (c) Either apply safeguards, when necessary, to eliminate the threats or reduce them to an [acceptable level](#), or when the threats cannot be eliminated or reduced to an [acceptable level](#):
 - (i) Decline or discontinue the specific [professional service](#) involved; or
 - (ii) When necessary, resign from the engagement or from the organization employing the [professional accountant](#).
- 110.006 In complying with the provisions set out in paragraphs 110.004 and 110.005, a [professional accountant](#) and [firm](#) shall:
- (a) Evaluate any threats to compliance with the fundamental principles when the [professional accountant](#) or [firm](#) knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with them;
 - (b) Take into account whether a reasonable and informed third party, weighing all the facts and circumstances available to the [professional accountant](#) or [firm](#) 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; and
 - (c) Take qualitative as well as quantitative factors into account when evaluating the significance of a threat.

Ethical Conflict Resolution

- 110.007 When resolving a conflict in complying with the fundamental principles, the [professional accountant](#) shall:
- (a) 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, determine whether to consult with those charged with governance of the organization. These may be the board of directors or the audit committee;
- (c) Refuse to remain associated with the matter creating the conflict, where possible, if, after exhausting all relevant possibilities the ethical conflict remains unresolved; and
- (d) Determine whether, in the circumstances, it is appropriate to:
 - (i) Withdraw from the engagement team or specific assignment; or
 - (ii) Resign altogether from the engagement, the [firm](#) or the employing organization.

Application and Other Explanatory Material

Fundamental Principles

- 110.008 Each of the fundamental principles with which [professional accountants](#) and [firms](#) are required to comply, as set out in Paragraph 110.004, is discussed in more detail in Sections 110–160.

Conceptual Framework Approach

- 110.009 The circumstances in which [professional accountants](#) and [firms](#) 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 [professional accountants](#) and [firms](#) to identify, evaluate, and address threats to compliance with the fundamental principles.
- 110.010 The conceptual framework approach assists [professional accountants](#) and [firms](#) 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. It can deter [professional accountants](#) and [firms](#) from concluding that a situation is permitted if it is not specifically prohibited.

Threats, Evaluation of Threats, and Safeguards

Threats

- 110.011 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](#) or [firm'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 – that a financial or other interest will inappropriately influence the [professional accountant's](#) or [firm's](#) judgment or behavior;
 - (b) Self-review threat – that a [professional accountant](#) or [firm](#) will not appropriately evaluate the results of a previous judgment made or service performed;

- (i) By the [professional accountant](#) or [firm](#); or
- (ii) By another individual within the [professional accountant's](#) [firm](#) or employing organization,
on which the [professional accountant](#) or [firm](#) will rely when forming a judgment as part of providing a current service;
- (c) Advocacy threat – that a [professional accountant](#) or [firm](#) will promote a client's or employer's position to the point that the [professional accountant's](#) or [firm's](#) objectivity is compromised;
- (d) Familiarity threat – that due to a long or close relationship with clients or employers, a [professional accountant](#) or [firm](#) will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – that a [professional accountant](#) or [firm](#) will be deterred from acting objectively because of actual or perceived pressures. This includes attempts to exercise undue influence over the [professional accountant](#) or [firm](#).

110.012 Parts B, C and D of this Code explain how these categories of threats may be created for [firms](#) or [professional accountants in public practice](#) and [in business](#). [Professional accountants in public practice](#) may also find Part C relevant to their particular circumstances.

Evaluation of Threats

110.013 Paragraph 110.005 requires that when a [professional accountant](#) or [firm](#) 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](#) or [firm](#) then 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, paragraphs 110.005 and 110.00 6(b) require the [professional accountant](#) or [firm](#) to exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the [professional accountant](#) or [firm](#) 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.

110.014 Paragraph 110.005(a) requires a [professional accountant](#) or [firm](#) to evaluate any threats to compliance with the fundamental principles when the [professional accountant](#) or [firm](#) knows, or could reasonably be expected to know, of circumstances that may compromise compliance with the fundamental principles.

110.015 Paragraph 110.00 5(c) requires a [professional accountant](#) or [firm](#) to take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a [professional accountant](#) or [firm](#) may encounter situations in which threats cannot be eliminated or reduced to an [acceptable level](#). This may be either because the threat is too significant or because appropriate safeguards are

not available or cannot be applied. In such situations, paragraph 110.005(c)(ii) requires the [professional accountant](#) or [firm](#) to:

- Decline or discontinue the specific [professional service](#) involved; or
- When necessary, resign from the engagement (in the case of a [firm](#) or [professional accountant in public practice](#)) or the employing organization (in the case of a [professional accountant in business](#)).

Application of Safeguards

110.016 Safeguards are actions or other measures that may eliminate threats or reduce them to an [acceptable level](#). They fall into two broad categories:

- Safeguards created by the profession, legislation or regulation; and
- Safeguards in the work environment. (Ref: Para.110.005(c))

110.017 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.
- 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](#) or [firm](#). (Ref: Para.110.005(c)).

110.018 (a) Safeguards available to [professional accountants in business](#) may be in the form of systems and procedures that have been implemented by the organization that employs such [professional accountants](#).

(b) Such systems and procedures may also be considered by a [firm](#) or [professional accountant in public practice](#) in the evaluation of the significance of a specific threat to [independence](#), as set out in Sections 400 to 499 and 500 to 599.

(c) [Firms](#) and [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.

(d) Part B and D of this Code discuss safeguards in the work environment for [firms](#) and [professional accountants in public practice](#). Part C discusses safeguards in the work environment for [professional accountants in business](#).

110.019 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, complaint systems operated by;
 - The employing organization;
 - The profession; or
 - A regulator.

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

These safeguards enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.

Ethical Conflict Resolution

- 110.020 A [professional accountant](#) may be required to resolve a conflict in complying with the fundamental principles. (Ref: Para.110.007)
- 110.021 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:
- (a) Relevant facts.
 - (b) Ethical issues involved including the fundamental principles.
 - (c) Established internal procedures.
 - (d) Alternative courses of action.
 - (e) Consultation with other appropriate persons within the [firm](#) or employing organization. (Ref: Para. 110.007)
- 110.022 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. (Ref: Para.110.006)
- 110.023 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 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.
- 110.024 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.

Section 130

Objectivity

Purpose of this Section

- 130.001 Acting in the public interest requires [professional accountants](#) to act with objectivity. The principle of objectivity obliges all [professional accountants](#) not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. [Professional accountants](#) must be alert to the wide variety of situations that may threaten their objectivity and to which the conceptual framework applies. It is impracticable to define and prescribe all such situations.
- 130.002 The provisions of paragraphs 110.004 require [professional accountants](#) and [firms](#) to comply with each of the fundamental principles. Paragraph 110.005 requires [professional accountants](#) and [firms](#) to apply the conceptual framework in relation to threats to those principles. This section sets out additional requirements in relation to compliance with the fundamental principle of objectivity.

Requirements

Specific Threats Related to Objectivity

- 130.003 A [professional accountant](#) and [firm](#) shall not engage in a professional activity if a circumstance or relationship unduly influences the accountant's or [firm](#)'s professional judgment regarding that activity. (Ref: Para.130.005, 110.004)
- 130.004 When providing any [professional service](#), a [professional accountant in public practice or firm](#), shall determine whether there threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships, such as family, close personal, business or other relationships, with a client or its directors, officers or employees. (Ref: Para.110.007, 110.008)

Application and Other Explanatory Material

Threats Related to Objectivity

- 130.005 The existence of threats to objectivity circumstances of the engagement and the nature of the work that the [firm professional accountant in public practice](#) is performing. (Ref: Para. 130.003) when providing any [professional service](#) will depend upon the particular circumstances of the engagement and the nature of the work that the [professional accountant in public practice](#) is performing.

Safeguards Related to Objectivity

- 130.006 Examples of safeguards that may be available to address threats to objectivity include:
- Supervisory procedures.
 - Discussing the issue:
 - With higher levels of management within the [firm](#); or
 - With [those charged with governance](#) of the client. (Ref: Para.130.003)
 - Withdrawing from the [engagement team](#).
 - Terminating the financial or business relationship giving rise to the threat.

Objectivity and Actual and Perceived Independence

- 130.007 [Independence](#) of mind and in appearance is necessary to enable the [professional accountant](#) to express and be seen to express an objective conclusion. Such a conclusion is one without bias, conflict of interest, or undue influence by others.
- 130.008 A [professional accountant in public practice](#) who provides an assurance service is required to be independent of the [assurance client](#). Sections 400 and 500 provide specific guidance on [independence](#) requirements for [professional accountants in public practice](#) when performing [assurance engagements](#).

Section 200

Introduction

Purpose of this Section

- 200.001 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to [firms](#) and [professional accountants in public practice](#).
- 200.002. There are a wide variety of situations that [firms](#) and [professional accountants in public practice](#) may face that threaten compliance with the fundamental principles and to which the conceptual framework applies.
- 200.003 Paragraphs 110.004 and 110.005 require [firms](#) and [professional accountants in public practice](#) to comply with each of the fundamental principles and apply the conceptual framework in relation to threats to those fundamental principles. This section provides guidance for [firms](#) and [professional accountants in public practice](#) regarding complying with those requirements.

Application and Other Explanatory Material

- 200.004 This Part does not describe all of the circumstances and relationships that could be encountered by [firms](#) or [professional accountants in public practice](#) that create or may create threats to compliance with the fundamental principles. Therefore, [firms](#) and [professional accountants](#) are encouraged to be alert for such circumstances and relationships.

Threats, Evaluation of Threats, and Safeguards

Threats

- 200.005 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to:
- (a) The provision of services to an [audit](#) or [review client](#) and whether such a client is a public interest entity;
 - (b) An assurance client that is not an [audit](#) or [review client](#); or
 - (c) A non-assurance client.

Threats fall into one or more of the following categories:

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

These threats are discussed further in paragraphs 110.009 to 110.015 of Part A of this Code.

- 200.006 Examples of circumstances that create self-interest threats for a [firm](#) or [professional accountant in public practice](#) include:

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

200.007 Examples of circumstances that create self-review threats for a [firm](#) or [professional accountant in public practice](#) include:

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

200.008 Examples of circumstances that create advocacy threats for a [firm](#) or [professional accountant in public practice](#) include:

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

200.009 Examples of circumstances that create familiarity threats for a [firm](#) or [professional accountant in public practice](#) include:

- A member of the [engagement team](#) having a [close](#) or [immediate family](#) member who is a [director or officer](#) of the client.
- A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
- A [director or officer](#) of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the [engagement partner](#).

- A [professional accountant](#) accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
- Senior personnel having a long association with the [assurance client](#).

200.010 Examples of circumstances that create intimidation threats for a [firm](#) or [professional accountant in public practice](#) include:

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

Evaluation of Threats

200.011 Paragraphs 110.005 and 110.005 require a [firm](#) or [professional accountant in public practice](#) to exercise judgment to determine how best to deal with threats that are not at an [acceptable level](#). This may be by applying safeguards to eliminate the threat or reduce it to an [acceptable level](#) or by terminating or declining the relevant engagement. A [firm](#) or [professional accountant in public practice](#) may take qualitative as well as quantitative factors into account when evaluating the significance of a threat. The [firm](#) or [professional accountant](#) may consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the [professional accountant](#) at that time, would be likely to conclude that the threats would be eliminated or reduced to an [acceptable level](#) by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as:

- (a) The significance of the threat;
- (b) The nature of the engagement; and
- (c) The structure of the [firm](#).

200.012 Depending on the nature of the engagement, a [firm](#) or [professional accountant in public practice](#) may also evaluate the impact, on the significance of a threat, of systems and procedures that the client has implemented. However, it is not possible to rely solely on the existence of such systems and procedures to conclude that a threat is not so significant as to require the application of safeguards to reduce it to an [acceptable level](#).

200.013 Examples of systems and procedures within the client that may impact the significance of a threat include:

- The client requires persons other than management to ratify or approve the appointment of a [firm](#) to perform an engagement.

- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the [firm](#)'s services.

Safeguards

200.014 Safeguards that may eliminate or reduce threats to an [acceptable level](#) fall into two broad categories, those:

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

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 110.017 of Part A of this Code.

200.015 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise [firm](#)-wide safeguards and engagement-specific safeguards. [Firm](#)-wide safeguards address threats to the [independence](#) of the [firm](#) and its members on an overall basis, but they may not be sufficient to address a specific threat in relation to a specific engagement.

200.016 Examples of [firm](#)-wide safeguards in the work environment include:

- Leadership of the [firm](#) that stresses the importance of compliance with the fundamental principles.
- Leadership of the [firm](#) that establishes the expectation that members of an [assurance team](#) will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the need to:
 - Identify threats to compliance with the fundamental principles;
 - Evaluate the significance of those threats; and
 - Apply safeguards to eliminate or reduce the threats to an [acceptable level](#) or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the [firm](#) or members of [engagement teams](#) and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and [engagement teams](#) with separate reporting lines for the provision of non-assurance services to an [assurance client](#).
- Policies and procedures to prohibit individuals who are not members of an [engagement team](#) from inappropriately influencing the outcome of the engagement.

- Timely communication of a [firm](#)'s policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the [firm](#)'s quality control system.
- Advising partners and professional staff of [assurance clients](#) and related entities from which [independence](#) is required.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the [firm](#) any issue relating to compliance with the fundamental principles that concerns them.

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

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

Networks and Network firms

Purpose of this Section

200.100 To enhance their ability to provide [professional services](#), [firms](#) frequently form larger structures with other [firms](#) and entities. The formation of such larger structures may result in the creation of [networks](#) and [network firms](#). In some circumstances, interests and relationships between a client of a [firm](#) and another entity in the [firm's network](#) may be relevant to compliance with the fundamental principle of objectivity and the related concept of [independence](#). This section establishes requirements and provides guidance for [firms](#) and [professional accountants](#) with respect to determining whether an entity that is part of such a larger structure constitutes a [network firm](#).

Requirements

- 200.101 When associated with a larger structure of other [firms](#) and entities, a [firm](#) or [professional accountant](#) shall:
- (a) Use professional judgment to determine whether a [network](#) is created by such a larger structure;
 - (b) Consider whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the other [firms](#) and entities in the larger structure are associated in such a way that a [network](#) exists; and
 - (c) Apply such judgment consistently throughout such a larger structure.
- 200.102 An entity that is a [network firm](#), irrespective of whether that entity itself meets the definition of a [firm](#), shall be independent of any [audit clients](#) of the other [firms](#) within the [network](#), unless an exception is otherwise provided by this Code.

Application and Other Explanatory Material

- 200.103 The [independence](#) requirements in this section that apply to a [network firm](#) apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a [network firm](#) irrespective of whether the entity itself meets the definition of a [firm](#).

General Provisions

- 200.104 Whether the larger structures that are established by [firms](#) create a [network](#) depends on the particular facts and circumstances and does not depend on whether the [firms](#) and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a [network](#). Alternatively, where a larger structure is aimed at co-operation and the [firms](#) share a common brand name, a common system of quality control, or significant professional resources the larger structure is a [network](#).
- 200.105 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is a [network](#). However, the sharing of immaterial costs does not in itself create a [network](#). In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a [network](#). Further, an association between a [firm](#) and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a [network](#).

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

that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating [firms](#) with technical advice that the [firms](#) are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

SECTION 210

Professional Appointment

Purpose of this Section

- 210.001 [Firms](#) and [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.
- 210.002 There are a wide variety of situations that may threaten compliance with the fundamental principles and to which the conceptual framework applies, when a [firm](#) or [professional accountant](#) is involved in a change in professional appointment or in accepting a new client or engagement.
- 210.003 The provisions of Paragraphs 110.004 and 110.005 require [firms](#) and [professional accountants](#) to comply with each of the fundamental principles 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

Specific Threats Related to Professional Appointments

- 210.004 A [firm](#) or [professional accountant](#) shall evaluate the significance of any threat to compliance with the fundamental principles that may be created by the following circumstances and apply safeguards when necessary to eliminate any such threat or reduce it to an [acceptable level](#):
- (a) Acceptance of any new professional engagement (Ref: Para. 210.009); or
 - (b) When acceptance of a professional engagement requires reliance on the advice or work of an expert. (Ref: Para. 210.011)
- 210.005
- (a) When a [firm](#) or [professional accountant in public practice](#) is asked by a potential client to replace, consider tendering for an engagement held by, or undertake work that is complementary or additional to that of another [professional accountant in public practice](#), the proposed [firm](#) or [professional accountant](#) shall:
 - (i) Determine whether there are any reasons, professional or otherwise, for not accepting the engagement; and (Ref: Para. 210.12)
 - (ii) Whenever possible, obtain the potential client's permission, preferably in writing, to initiate discussion with the existing [firm](#) or [professional accountant](#); (Ref: Para. 210.13 to 17)
 - (b) In such circumstances, an existing [firm](#) or [professional accountant](#) shall:
 - (i) Comply with relevant legal and other regulations governing such requests; and
 - (ii) Provide any such information honestly and unambiguously.
 - (c) When unable to communicate with the [existing accountant](#), the proposed [firm](#) or [professional accountant](#) shall take other reasonable steps to obtain information about any possible threats to compliance with the fundamental principles.

Application and Other Explanatory Material

Client Acceptance and Continuance

Threats and Safeguards

- 210.006 Acceptance of a new client relationship may create threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management or activities).
- 210.007 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.
- 210.008 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 charged with governance](#) and business activities;
 - Securing the client's commitment to improve corporate governance practices or internal controls; or
 - Periodically reviewing acceptance decisions for recurring client engagements.

Engagement Acceptance

Threats and Safeguards

- 210.009 The fundamental principle of professional competence and due care requires [firms](#) and [professional accountants in public practice](#) to provide only those services that they are competent to perform. Before accepting a specific client engagement, paragraph 210.004 requires a [firm](#) or [professional accountant](#) to determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the [engagement team](#) does not possess, or acquire, the relevant competencies.
- 210.010 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.
 - Agreeing on a realistic time frame for the performance of the engagement.
 - Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

- Using experts where necessary.

210.011 Factors to consider when a [firm](#) or [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. (Ref: Para. 210.004)

Changes in a Professional Appointment

Threats and safeguards

210.012 Paragraph 210.005 requires a [firm](#) or [professional accountant in public practice](#) who is asked to replace another accountant, or who is considering tendering for an engagement currently held by another accountant, to determine whether there are any reasons, professional or otherwise, for not accepting the engagement. These may be circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an [acceptable level](#) by the application of safeguards. For example, there may be a threat to professional competence and due care if a [firm](#) or [professional accountant in public practice](#) accepts the engagement before knowing all the relevant facts.

210.013 Depending on the nature of the engagement, direct communication with the [existing accountant](#) to establish the facts and circumstances regarding the proposed change may be necessary. Such communication may be necessary to permit the [firm](#) or [professional accountant in public practice](#) to decide whether it would be appropriate to accept the engagement. For example, the apparent reason for the change in appointment may not fully reflect the facts. It may indicate disagreements with the [existing accountant](#) that may influence the decision to accept the appointment.

210.014 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. This is so that inquiries may be made whether there are any reasons why the appointment should not be accepted;
- Asking the [existing accountant](#) to provide information on any facts or circumstances that the proposed accountant needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources.

210.015 A [firm](#) or [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.

- 210.016 An [existing accountant](#) is bound by confidentiality. Whether such an existing [firm](#) or [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.
- 210.017 Circumstances where the [firm](#) or [professional accountant](#) is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 150 of Part A of this Code.

SECTION 400

Introduction

Scope

400.000 Paragraphs 400.000 to 499.999 apply to [firms](#) and [professional accountants in public practice](#). They set out requirements that apply to, and provide guidance for, [firms](#), [professional accountants](#), or both, as the case may be, with respect to maintaining [independence](#) when performing [audit](#) or [review engagements](#).

Purpose of this Section

- 400.001 In order to serve the public interest, [professional accountants](#) and [firms](#) need to be independent of their [audit](#) and [review clients](#).
- 400.002 There are a wide variety of situations that may threaten compliance with the fundamental principles and to which the conceptual framework applies.
- 400.003 Paragraphs 110.004 and 110.005 require [firms](#) and [professional accountants](#) to comply with each of the fundamental principles and apply the conceptual framework in relation to threats to those fundamental principles. This section sets out additional requirements and provides guidance related to achieving and maintaining [independence](#) when performing [audit](#) and [review engagements](#).

Requirements

General Requirements

- 400.004 When performing an [audit](#) or [review engagement](#), both a [firm](#) and a [professional accountant](#) shall:
- (a) Be independent of the [audit](#) or [review client](#); and
 - (b) Comply with each of the provisions of Section 400.
- 400.005 In applying the provisions of Paragraphs 110.004 and 110.005 when performing an [audit](#) or [review engagement](#), a [firm](#) and a [professional accountant](#) shall:
- (a) When evaluating the significance of threats to [independence](#), take qualitative as well as quantitative factors into account;
 - (b) When a determination has been made that the threats are not at an [acceptable level](#), and the decision to be made is whether to accept an engagement or include a particular individual on the [audit](#) or [review team](#), determine whether safeguards are available to eliminate the threats or reduce them to an [acceptable level](#);
 - (c) When the decision is whether to continue an [audit engagement](#) or [review engagement](#), determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an [acceptable level](#) or whether other safeguards will need to be applied or whether the engagement needs to be terminated; and
 - (d) Whenever new information about a threat to [independence](#) comes to the attention of the [firm](#) or [professional accountant](#) during an [audit](#) or [review engagement](#), evaluate the significance of that threat in accordance with the conceptual framework approach.

- 400.006 A [firm](#) shall implement, establish and maintain policies and procedures, appropriately documented and communicated within the [firm](#), to:
- (a) Enable identification of individuals who, in particular circumstances, are responsible for compliance with this section by the [firm](#);
 - (b) Maintain compliance with this section by all individuals within the [firm](#) and, as applicable, their [immediate](#) and [close family](#); and
 - (c) Require all individuals within the [firm](#) to communicate threats to [independence](#) to those individuals who are responsible for compliance with this section by the [firm](#) in order that such individuals may take appropriate action on behalf of the [firm](#) to comply with this section. (Ref: Para. 400.013, 400.014)

Application and Other Explanatory Material

Structure of Section

- 400.007 This section addresses the independence requirements for [audit engagements](#) and review [engagements](#). These engagements are [assurance engagements](#) in which a firm [professional accountant in public practice](#) expresses a conclusion on [financial statements](#). Such engagements comprise [audit](#) and [review engagements](#) to report on a complete set of [financial statements](#) or on a single [financial statement](#). Independence requirements for [assurance engagements](#) that are not audit or [review engagements](#) are addressed in Section 500 to 599.

Reports with Restricted Use and Distribution

- 400.008 In certain circumstances, an opinion or report issued by a [firm](#) or [professional accountant](#) in relation to an [audit or review engagement](#) may include a restriction on use and distribution. In such circumstances, the [independence](#) requirements in this section may be modified as provided in paragraphs 470.000 to 470.999, provided that the conditions set out in those paragraphs are also met. Such modifications are not permitted in the case of an audit or review of [financial statements](#) required by law or regulation.

A Conceptual Framework Approach to Independence

- 400.009 [Independence](#) comprises:
- (a) [Independence](#) of Mind
The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment. This allows 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 would be likely to conclude, weighing all the specific facts and circumstances, that a [firm](#)'s, or a member of the [audit or review team](#)'s, integrity, objectivity or professional skepticism has been compromised.
- 400.010 Paragraphs 110.004 and 110.005 require [firms](#) and [professional accountants](#) to use professional judgment to apply the fundamental principles and the conceptual framework approach to:
- (a) Identify threats to [independence](#);

- (b) Evaluate the significance of the threats identified; and
- (c) Either apply safeguards, when necessary, to eliminate the threats or reduce them to an [acceptable level](#) or, when the threats cannot be eliminated or reduced to an [acceptable level](#):
 - (i) Eliminate the circumstance or relationship creating the threats; or
 - (ii) Decline or terminate the audit or review engagement.

Paragraph 400.005 sets out additional specific requirements regarding the evaluation of threats to [independence](#) when performing an [audit](#) or [review engagement](#).

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

Identifying Responsibility for Firms

- 400.013 Paragraph 400.006 requires the [firm](#) to establish and maintain policies and procedures to enable identification of those individuals who are responsible for the [firm](#)'s compliance with the provisions of this section. Such responsible individuals may include:
- The [engagement partner](#).
 - Senior individuals responsible for ethics or [independence](#) matters for the [firm](#).
 - Any other individual within the [firm](#) identified as a responsible individual in relation to a particular matter.
- 400.014 Policies that enable identification of responsible individuals may differ depending on the size, structure and organization of a [firm](#). (Ref: Para. 400.006) In addition, *International Standards on Auditing* (ISAs) require the [engagement partner](#) to form a conclusion on compliance with the [independence](#) requirements that apply to the engagement.

Purpose of this Section

- 420.001 A close business relationship between a [firm](#) or a [professional accountant](#), or those who have relationships with them, and an [audit](#) or [review client](#) or its management, arises from a commercial relationship or common [financial interest](#). Such a close business relationship may create self-interest or intimidation threats that impair objectivity. It may also compromise the proper exercise of professional judgment and skepticism that is necessary to maintain [independence](#) from the client.
- 420.002 There are a wide variety of situations related to business relationships that may threaten compliance with the fundamental principles.
- 420.003 Paragraphs 110.004 and 110.005 require [firms](#) and [professional accountants](#) to comply with each of the fundamental principles and apply the conceptual framework in relation to threats to those fundamental principles. This section sets out additional requirements and provides guidance related to business relationships.

Requirements

Business Relationships Specifically Identified as Threats

- 420.004 A [firm](#) or a [professional accountant](#) shall evaluate the significance of any threat created by the following relationships and apply safeguards when necessary to eliminate the threat or reduce it to an [acceptable level](#):

Immediate Family Relationships

- (a) When an [immediate family](#) member of the member of the [audit team](#) or [review team](#) has a close business relationship with an [audit client](#) or [review client](#) of the [firm](#) or its management (Ref: Para. 420.007);

Purchase of Goods or Services

- (b) When the [firm](#), a [network firm](#), or a member of the [audit team](#) or [review team](#) or a member of that individual's [immediate family](#), enters into a transaction to purchase goods or services from an [audit](#) or [review client](#) and the transaction is:
- (i) Not at arm's length;
 - (ii) Not in the normal course of business; or
 - (iii) Of such a nature or magnitude that it creates a self-interest threat. (Ref: Para. 420.008)

Business Relationships Specifically not Permitted

Firm or Audit or Review Team Member Relationships

- 420.005 The [firm](#), a [network firm](#) or a member of the [audit](#) or [review team](#) shall not have a close business relationship with:
- (a) An [audit client](#) or [review client](#) of the [firm](#); or
 - (b) Its management,
- unless the [financial interest](#) is immaterial and the business relationship is insignificant to the [firm](#), the [network firm](#) or the [audit](#) or [review team](#) member, as the case may be, and the client or its management.

Common Interests in Closely-Held Entities

420.006 The [firm](#), a [network firm](#) a member of the [audit team](#) or [review team](#), or a member of that individual's [immediate family](#) shall not have a business relationship involving the holding of an interest in a closely-held entity when:

- (a) The [audit](#) or [review client](#) of the [firm](#); or
- (b) A [director](#) or [officer](#) of the [audit](#) or [review client](#); or
- (c) Any group thereof,

also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the [firm](#), the [network firm](#), the member of the [audit team](#) or [review team](#) and the [immediate family](#) member, and the [audit](#) or [review client](#);
- (b) The [financial interest](#) is immaterial to the investor or group of investors; and
- (c) The [financial interest](#) does not give the investor, or group of investors, the ability to control the closely-held entity.

Application and Other Explanatory Material

Relationships Involving the Firm Audit or Review Team Member or an Immediate Family Member

420.007 Examples of a close business relationship between a [firm](#), a [network firm](#) a member of the [audit](#) or [review team](#), or a member of that individual's [immediate family](#) and the [audit](#) or [review client](#) or its management, arising from a commercial relationship or common [financial interest](#) include:

- Having a [financial interest](#) in a joint venture with either the [audit](#) or [review client](#) or a controlling owner, [director or officer](#) or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the [firm](#) or a [network firm](#) with one or more services or products of the [audit](#) or [review client](#) and to market the package with reference to both parties.

Distribution or marketing arrangements under which the [firm](#) or a [network firm](#) distributes or markets the [audit](#) or [review client](#)'s products or services; or that client distributes or markets the [firm](#)'s or a [network firm](#)'s products or service. (Ref: Para. 420.004(a))

Purchase of Goods or Services

420.008 The purchase of goods or services from an [audit](#) or [review client](#) by the [firm](#), a [network firm](#), a member of the [audit](#) or [review team](#), or a member of that individual's [network](#), does not generally create a threat to [independence](#) if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. Paragraph 420.004(b) requires the [firm](#) or [professional accountant](#) to evaluate the significance of any threat and apply safeguards when necessary to eliminate the threat or reduce it to an [acceptable level](#). Examples of such safeguards include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the [audit](#) or [review team](#). (Ref: Para. 420.004(b))

440.300 – Valuation Services

Purpose of this Section

- 440.301 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole. Performing a valuation service for an [audit](#) or [review client](#) may create a self-review threat that impairs objectivity and compromises the proper exercise of professional judgment and skepticism necessary to maintain [independence](#) from the [audit](#) or [review client](#).
- 440.302 There are a wide variety of situations related to the performance of a valuation service for an [audit](#) or a [review client](#) that may threaten compliance with the fundamental principles.
- 440.303 Paragraphs 110.004 and 110.005 require [firms](#) and [professional accountants](#) to comply with each of the fundamental principles and apply the conceptual framework in relation to threats to those fundamental principles. This section sets out additional requirements and provides guidance related to the performance of a valuation service for an [audit](#) or [review client](#).

Requirements

Valuation Services Specifically not Permitted

Audit or Review Clients that are not Public Interest Entities

- 440.304 A [firm](#), a [network firm](#) or a [professional accountant](#) shall not provide a valuation service for an [audit client](#) or a [review client](#) that is not a [public interest entity](#) if:
- (a) The valuation service has a material effect on the [financial statements on which the firm or professional accountant will opine or report](#); and
 - (b) The valuation involves a significant degree of subjectivity.

Audit or Review Clients that are Public Interest Entities

- 440.305 A [firm](#), a [network firm](#) or a [professional accountant](#) shall not provide a valuation service to an [audit client](#) or a [review client](#) that is a [public interest entity](#) if the valuation service would have a material effect, separately or in the aggregate, on the [financial statements on which the firm professional accountant will opine or report](#).

Application and Other Explanatory Material

General Provisions

- 440.306 Whether performing a valuation service for an [audit](#) or a [review client](#) creates a self-review or other threat will depend on factors such as:
- Whether the valuation will have a material effect on the [financial statements](#).
 - The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
 - The availability of established methodologies and professional guidelines.
 - For a valuation involving standard or established methodologies, the degree of subjectivity inherent in the item.

- The reliability and extent of the underlying data.
- Whether the degree of dependence on future events could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the [financial statements](#).

Applying the conceptual framework approach requires the significance of any threat created to be evaluated by the [firm](#) or [professional accountant](#) and safeguards applied when necessary to eliminate the threat or reduce it to an [acceptable level](#). Examples of such safeguards include:

- Having a professional who was not involved in providing the valuation service perform a review of the audit or review or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the [audit](#) or [review engagement](#).

Significant Degree of Subjectivity

440.307 Paragraph 440.304 recognizes that certain valuations do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are either established by law or regulation or are widely accepted, and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Valuations for Tax Purposes

440.308 If a [firm](#), a [network firm](#) or a [professional accountant](#) is requested to perform a valuation to assist an [audit](#) or [review client](#) with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the [financial statements](#), the provisions included in paragraph 400.999 apply.