

The Conceptual Framework contained in Section 110 applies in all circumstances

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**The safeguards project scope includes extant Code paragraphs 200.3 – 200.15 which are equivalent to draft restructured Code Section 300.3 G2 – 300.3 G15**

**These paragraphs will only be presented to the Board for review once the Safeguards Task Force has completed its work. They have been highlighted in grey where they occur in this text to indicate that they have been included for reference only and not for review.**

#### PART C PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

##### Section 300

##### Application of the Conceptual Framework for Professional Accountants in Public Practice

##### Scope of this Part

- 300.1 This Part of the Code describes how the conceptual framework contained in Section 110 applies in certain situations to professional accountants.

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300.2 In Parts C, C1 and C2, the term “professional accountant” refers to professional accountants in public practice and firms of professional accountants in practice.

### Requirements and Guidance

**R300.3** A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework contained in Section 110 in relation to threats to those fundamental principles.

300.3 G1 This Part does not describe all of the circumstances and relationships that could be encountered by professional accountants that create or may create threats to compliance with the fundamental principles. Therefore, professional accountants are encouraged to be alert for such circumstances and relationships.

### *Conceptual Framework – Threats and Safeguards*

#### Threats

300.3 G2 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to:

- The provision of services to an audit client and whether such a client is a public interest entity;
- An assurance client that is not an audit client; or
- A non-assurance client.

300.3 G3 Threats fall into one or more of the following categories:

- Self-interest;
- Self-review;
- Advocacy;
- Familiarity; and
- Intimidation.

These threats are discussed further in paragraphs 110.3 G3 to 110.3 G4 and 300.3 G4 to 300.3 G8 of this Code.

300.3 G4 Examples of circumstances that create self-interest threats for a professional accountant include:

- A member of the assurance team having a direct financial interest in the assurance client.
- A firm having undue dependence on total fees from a client.

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- 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.

300.3 G5 Examples of circumstances that create self-review threats for a professional accountant include:

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

300.3 G6 Examples of circumstances that create advocacy threats for a professional accountant 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.

300.3 G7 Examples of circumstances that create familiarity threats for a professional accountant 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.

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- 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.

300.3 G8 Examples of circumstances that create intimidation threats for a professional accountant include:

- A firm being threatened with dismissal from a client engagement.
- An audit client indicating that it will not award a planned non-assurance contract to the firm if 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

300.3 G9 The evaluation of threats may be affected by matters such as:

- The significance of the threat;
- The nature of the engagement; and
- The structure of the firm.

300.3 G10 Depending on the nature of the engagement, a professional accountant may also evaluate the impact of safeguards that the client has implemented on the significance of a threat. 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.

300.3 G11 Examples of safeguards 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.

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- 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

300.3 G12 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

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

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 110.3 G6 of this Code.

300.3 G13 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement-specific safeguards.

300.3 G14 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.

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- 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.

300.3 G15 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.

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*Those Charged with Governance*

**R300.4** When communicating with those charged with governance under this Code, the professional accountant shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. If a professional accountant communicates with a subgroup of those charged with governance, the professional accountant shall determine whether communication with all of those charged with governance is also necessary.

300.4 G1 In determining with whom to communicate, the professional accountant may consider:

- The nature and importance of the circumstances; and
- The matter to be communicated.

300.4 G2 If a professional accountant communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance may also be necessary to ensure they are adequately informed.

## **Section 310**

### **Conflicts of Interest**

#### **Scope of this Section**

310.1 Section 310 contains requirements and guidance in relation to applying the conceptual framework to conflicts of interest.

310.2 When a professional accountant provides an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Parts C1 and C2, as appropriate.

#### **Requirements and Guidance**

**R310.3** In relation to a conflict of interest, a professional accountant shall apply the conceptual framework contained in Section 110.

**R310.4** A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.4 G1 When performing professional services, professional accountants may face circumstances that cause a conflict of interest. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles.

310.4 G2 A conflict of interest may arise when:

- The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or

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

310.4 G3 Examples of situations in which conflicts of interest may arise include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction.
- Advising two clients at the same time who are competing to acquire the same company, where the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

*Evaluating the Threat and Applying Safeguards*

310.4 G4 Factors that may be considered when evaluating a threat created by a conflict of interest include the significance of:

- The interests or relationships; and
- The threats created by performing the professional services.

310.4 G5 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.

310.4 G6 Examples of safeguards include:

- Implementing measures to prevent unauthorized disclosure of confidential information, when performing professional services related to a particular matter for two or more



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clients whose interests with respect to that matter are in conflict. This could include:

- Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Creating separate practice areas for specialty functions within the firm, which may act as a barrier to the passing of confidential client information between practice areas.
- Establishing policies and procedures to limit access to client files.
- Using confidentiality agreements signed by staff and partners of the firm.
- Separating confidential information physically and electronically.
- Reviewing regularly the application of safeguards by a senior individual not involved with the client engagement or engagements.
- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
- Consulting third parties, such as a professional body, legal counsel or another professional accountant.

## Requirements and Guidance

### *Conflict Identification*

**R310.5** Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest.

**310.5 G1** The steps that a professional accountant may take to identify circumstances that might create a conflict of interest before accepting a new client relationship, engagement, or business relationship, include identifying:

- Relevant interests;
- Relationships between the parties involved; and
- The service and its implication for relevant parties.

**310.5 G2** Professional accountants are assisted by having an effective conflict identification process in place. This may include matters identified by external parties, for example clients or potential clients. A conflict identification process may assist a professional accountant to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the professional accountant being able to apply safeguards to eliminate the threat.

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The process to identify actual or potential conflicts of interest will depend on such factors as the:

- Nature of the professional services provided.
- Size of the firm.
- Size and nature of the client base.
- Structure of the firm, for example, the number and geographic location of offices.

310.5 G3 More information on client acceptance is contained in Section 320, *Professional Appointment*.

#### *Changes in Circumstances*

**R310.6** A professional accountant shall remain alert to changes in the circumstances that might create a conflict of interest during an engagement.

310.6 G1 The nature of the services and the interests and relationships may change during the engagement. This is often true in a situation that may become adversarial, although there is no dispute when the engagement begins. This requires the professional accountant to remain alert to changes to identify circumstances that might create a conflict of interest.

#### *Network Firms*

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

310.7 G1 Reasonable steps to identify interests and relationships involving a network firm will depend on factors such as:

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

#### *Disclosure and Consent*

**R310.8** A professional accountant shall exercise professional judgment to determine whether the nature and significance of a conflict of interest is such that specific disclosure and explicit consent is necessary.

310.8 G1 It is generally necessary:

- To disclose the nature of the conflict of interest and any related safeguards to clients affected by the conflict; and
- When safeguards are required, to reduce the threat to an acceptable level, to obtain the consent of the affected clients to perform the professional services.

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Disclosure and consent may take different forms, for example:

- General consent may be obtained from clients by disclosing circumstances where, as is common commercial practice, the professional accountant does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). For example, a professional accountant might make general disclosure in the standard terms and conditions for the engagement.
- Specific consent may be obtained by disclosing, to affected clients, the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter. Such disclosure may include a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent may be implied by clients' conduct in circumstances where the professional accountant has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

310.8 G2 When determining whether specific disclosure and explicit consent, are necessary, the conceptual framework requires the professional accountant to exercise professional judgment and consider all the circumstances that create a conflict of interest. Factors to consider include the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

310.8 G3 If disclosure or consent is not in writing, the professional accountant is encouraged to document:

- The nature of the circumstances giving rise to the conflict of interest;
- The safeguards applied to reduce the threats to an acceptable level; and
- The consent obtained.

**R310.9** If a professional accountant has requested a client to give explicit consent and the client has refused, the professional accountant shall either:

- (a) Decline to perform or discontinue professional services that would result in the conflict of interest;
- (b) End relevant relationships; or
- (c) Dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, so that consent can be obtained, after applying any additional safeguards if necessary.

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### *Confidentiality*

**R310.10** A professional accountant shall remain alert to the fundamental principle of confidentiality including when making disclosures or sharing information within the firm or network and seeking guidance of third parties.

**R310.11** When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, the firm shall not accept or continue an engagement unless:

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients;
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties; and
- (d) The professional accountant documents:
  - (i) The nature of the circumstances, including the role that the professional accountant is to undertake;
  - (ii) The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and
  - (iii) Why it is appropriate to accept the engagement.

310.11 G1 For example, a breach of confidentiality may arise when seeking consent to perform:

- A transaction-related service for a client in a hostile takeover of another client of the firm.
- A forensic investigation for a client of a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud.

## **Section 320**

### **Professional Appointment**

#### **Scope of this Section**

320.1 Section 320 contains requirements and guidance on applying the conceptual framework to professional appointments, covering both new appointments and changes to existing ones.

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## Requirements and Guidance

**R320.2** In relation to professional appointment, a professional accountant shall apply the conceptual framework contained in Section 110.

320.2 G1 Changes in professional appointments, including accepting a new client or engagement, may create threats to compliance with each of the fundamental principles.

### *Client Acceptance and Continuance*

320.2 G2 Acceptance of a new client relationship may create threats to integrity or professional behavior. This might arise, for example, where the client, its owners or management are involved in illegal activities, dishonesty or questionable financial reporting practices.

Examples of safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those charged with governance and business activities;
- Obtaining the client's commitment to improve corporate governance practices or internal controls; or

320.2 G3 It is recommended that a professional accountant periodically review acceptance decisions for recurring client engagements.

### *Engagement Acceptance*

320.2 G4 A self-interest threat to professional competence and due care is created if the engagement team does not possess, or acquire, the competencies to perform the professional services.

Examples of safeguards include:

- Acquiring an appropriate understanding of:
  - The nature of the client's business;
  - The complexity of its operations;
  - The 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 engagement personnel 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 engagements are accepted only when they can be performed competently.

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- Using experts where necessary.

*Changes in Professional Appointment*

**R320.3** A professional accountant shall determine whether there are any reasons, professional or otherwise, for not accepting an engagement when the professional accountant:

- (a) Is asked by a potential client to replace another professional accountant, or
- (b) Considers tendering for an engagement held by another professional accountant; or
- (c) Considers undertaking work that is complementary or additional to that of another professional accountant.

320.3 G1 There may be reasons, professional or otherwise, for not accepting an engagement. Such reasons may include 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 professional accountant accepts the engagement before knowing all the relevant facts.

320.3 G2 If a professional accountant is asked to undertake work that is complementary or additional to the work of an existing accountant, threats to professional competence and due care may result, for example, from incomplete information.

Examples of safeguards include:

- Stating in tenders that, before accepting the engagement, contact with the existing accountant will be requested. This contact gives the proposed professional accountant the opportunity to inquire whether there are any reasons why the appointment should not be accepted.
- Asking the existing accountant to provide any known information that, in the existing accountant's opinion, the proposed professional accountant needs to be aware of before deciding whether to accept the engagement.
- Obtaining information from other sources such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.

320.3 G3 Depending on the nature of the engagement, direct communication with the existing accountant may be needed to establish the circumstances regarding a proposed change in appointment. Such communication may assist a professional accountant 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.

320.3 G4 A professional accountant will generally need the client's permission, preferably in writing, to approach the existing professional accountant.

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- R320.4** If 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.
- R320.5** When an existing professional accountant is asked to respond to a communication from a proposed accountant, the existing professional accountant shall:
- (a)** Comply with relevant law and regulation governing the request; and
  - (b)** Provide any information honestly and unambiguously.
- 320.5 G1 An existing professional accountant is bound by confidentiality. Whether this accountant is permitted or required to discuss the affairs of a client with a proposed professional accountant will depend on;
- (a)** The nature of the engagement;
  - (b)** Whether the professional accountant has permission from the client for the discussion; or
  - (c)** The legal and ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.
- 320.5 G2 Circumstances where a professional accountant may be required to disclose confidential information, or where disclosure may be appropriate, are contained in paragraph 114.2 G2 and 114.2 G3 of this Code.

#### *Second Opinions*

- R320.6** If an entity seeking a second opinion from a professional accountant will not permit the professional accountant to communicate with the existing accountant, the professional accountant shall determine whether, taking all the circumstances into account, the professional accountant may provide the second opinion sought and remain in compliance with the fundamental principles.
- 320.6 G1 Professional accountants may be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client.
- 320.6 G2 Providing a second opinion to an entity that is not an existing client may create threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care if the second opinion is not based on the same facts that the existing accountant had, or is based on inadequate evidence. The existence and significance of the threat depends on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- Examples of safeguards include:
- Seeking client permission to contact the existing accountant;

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- Describing the limitations surrounding any opinion in communications with the client; and
- Providing the existing accountant with a copy of the opinion.

#### *Reliance on an Expert*

**R320.7** When a professional accountant intends to use the work of an expert, the professional accountant shall determine whether the use is warranted.

320.7 G1 Factors to consider when a professional accountant intends to use the work of an expert include: reputation, expertise, resources available and professional and ethical standards. This information may be gained from prior association with the expert or from consulting others.

## **Section 330**

### **Fees and Other Types of Remuneration**

#### **Scope of this Section**

330.1 Section 330 contains requirements and guidance on applying the conceptual framework to fees and other types of remuneration.

#### **Requirements and Guidance**

**R330.2** In relation to fees and remuneration, a professional accountant shall apply the conceptual framework contained in Section 110.

330.2 G1 The level and nature of fee and other remuneration arrangements may create threats to objectivity and professional competence and due care.

#### *Level of Fees*

330.2 G2 The level of fees quoted may impact a professional accountant's ability to perform professional services in accordance with professional standards.

330.2 G3 A professional accountant may quote whatever fee is considered appropriate. Quoting a fee lower than another professional accountant is not in itself unethical. However, fee quotations may create a threat to professional competence and due care if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

Examples of safeguards include:

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers; or
- Assigning appropriate time and qualified staff to the task.



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### *Contingent Fees*

330.2 G4 Contingent fees are widely used for some non-assurance services. However, contingent fees may create threats to compliance with the fundamental principles, particularly a self-interest threat to objectivity, in certain circumstances. The existence and significance of such threats will depend on factors including:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Whether an independent third party is to review the outcome or result of the transaction.

Examples of safeguards include:

- An advance written agreement with the client on the basis of remuneration;
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration;
- Quality control policies and procedures; or
- Review by an independent third party of the work performed by the professional accountant.

330.2 G5 Contingent fees for non-assurance services provided to audit clients and other assurance clients are contained in Parts C1 and C2 of this Code.

### *Referral Fees or Commissions*

330.2 G6 A self-interest threat to objectivity and professional competence and due care is created if a professional accountant receives a referral fee or commission relating to a client. For example, such referral fees or commissions include:

- A fee received for referring a continuing client to another professional accountant or other expert where the professional accountant does not provide the specific professional service required by the client; or
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

330.2 G7 A self-interest threat to objectivity and professional competence and due care is also created if a professional accountant pays a referral fee to obtain a client. For example, such a referral fee includes a fee that is paid when the client continues as a client of another professional accountant but requires specialist services not offered by the existing accountant.

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330.2 G8 Examples of safeguards include:

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

330.2 G9 A professional accountant may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purpose of paragraph R330.1.

## Section 340

### Gifts and Hospitality

#### Scope of this Section

340.1 Section 340 contains requirements and guidance on applying the conceptual framework to offers of gifts and hospitality.

#### Requirements and Guidance

**R340.2** In relation to gifts and hospitality, a professional accountant shall apply the conceptual framework contained in Section 110.

340.2 G1 An offer of gifts or hospitality from a client may create a self-interest or familiarity threat to objectivity if the offer is accepted or an intimidation threat to objectivity if the acceptance of the offer might be made public.

340.2 G2 The existence and significance of a threat created by an offer of a gift or hospitality from a client will depend on the nature, value, and intent of the offer. In some cases, a reasonable and informed third party would consider some gifts or hospitality to be trivial and inconsequential. In such cases, a professional accountant may conclude that the offer is made in the normal course of business without intent to influence decision making or to obtain information and conclude that any threat to compliance with the fundamental principles is at an acceptable level.

## Section 350

### Custody of Client Assets

#### Scope of this Section

350.1 Section 350 contains requirements and guidance on applying the conceptual framework to assuming custody of client money or other assets.

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## Requirements and Guidance

**R350.2** In relation to assuming custody of client money or other assets, a professional accountant shall apply the conceptual framework contained in Section 110.

350.2 G1 Holding client assets creates threats to compliance with the fundamental principles, for example a self-interest threat to professional behavior and objectivity. A professional accountant may also be bound by law that establishes who may take custody of client money or other assets and under what conditions such custody may be taken.

**R350.3** A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law. A professional accountant shall also comply with any legal duties relating to the holding of such assets.

**R350.4** As part of client and engagement acceptance procedures in relation to assuming custody of client money or assets, a professional accountant shall:

- (a) Make inquiries about the source of the assets; and
- (b) Consider related legal and regulatory obligations.

350.4 G1 Inquiries about the source of client assets may reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such situations, a threat to compliance with the fundamental principles would be created and the professional accountant may consider seeking legal advice.

**R350.5** A professional accountant entrusted with money or other assets belonging to others shall:

- (a) Keep the assets separately from personal or firm assets;
- (b) Use the assets only for the purpose for which they are intended;
- (c) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any persons entitled to that accounting; and
- (d) Comply with the laws and regulations relevant to holding and accounting for the assets.