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PART A INTRODUCTION AND FUNDAMENTAL PRINCIPLES

Section 100

Compliance with the Code

Introduction to the Code

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.
- 100.2 This Part contains requirements and guidance for professional accountants regarding matters that are fundamental to acting in the public interest, namely:
- (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.
- 100.3 The standard of behavior expected of a professional accountant is based on the fundamental principles contained in this Code. The conceptual framework establishes an approach which

professional accountants are required to apply to assist them in achieving compliance with those fundamental principles.

Terms Used

- 100.4 In Part A, “professional accountant” refers to:
- (a) Professional accountants in business;
 - (b) Professional accountants in public practice; and
 - (c) Firms of professional accountants in public practice.

Requirements and Guidance

- R100.5** In acting in the public interest a professional accountant shall comply with this Code. There may be circumstances when a professional accountant is prohibited from complying with certain parts of this Code by law or regulation. In that event, the professional accountant shall comply with all other parts of this Code.
- R100.6** A professional accountant who identifies a breach of this Code shall:
- (a) Evaluate the significance of the breach and its impact on the professional accountant’s ability to comply with the fundamental principles;
 - (b) Take whatever actions may be available, as soon as possible, to address the consequences of the breach satisfactorily;
 - (c) Determine whether to report the breach to those who may have been affected by it, a professional body or a regulator; and
 - (d) Address a breach of a requirement in Parts C1 and C2 in accordance with the provisions contained in those Parts.

The safeguards project scope includes extant Code paragraphs 100.12 – 100.16 which are equivalent to post-CP draft restructured Code paragraphs R110.2 – 110.3 G8.

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

Section 110

The Fundamental Principles and Conceptual Framework

Requirements and Guidance

Fundamental Principles

- R110.1** A professional accountant shall comply with the following fundamental principles:
- (a) Integrity – to be straightforward and honest in all professional and business relationships. (See Subsection 111).

- (b) Objectivity – to make professional or business judgments, without bias, conflict of interest or undue influence of others. (See Subsection 112).
- (c) Professional Competence and Due Care – to:
 - (i) Maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service, based on current developments in practice, legislation and techniques; and
 - (ii) Act diligently and in accordance with applicable technical and professional standards. (See Subsection 113).
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not to:
 - (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 or for the advantage of a third party. (See Subsection 114).
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know would discredit the profession. (See Subsection 115).

110.1 G1 The fundamental principle of objectivity also requires a professional accountant to be independent of an assurance client. For more details, see Part C1.

Conceptual Framework

R110.2 A professional accountant shall use professional judgment 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) When the professional accountant determines that appropriate safeguards are not available, or cannot be applied to eliminate the threats or reduce them to an acceptable level, eliminate the circumstance or relationship creating the threat or decline or terminate the engagement.

R110.3 In complying with the provisions set out in paragraphs R110.1 and R110.2, a professional accountant shall:

- (a) Evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with them;
- (b) Take into account whether a reasonable and informed third party, weighing all the facts and circumstances available to the professional accountant at the time, would be likely

to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised; and

- (c) Take qualitative as well as quantitative factors into account when evaluating the significance of a threat.

110.3 G1 The circumstances in which professional accountants operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and to 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 to identify, evaluate and address threats to compliance with the fundamental principles.

110.3 G2 The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles. It can deter professional accountants from concluding that a situation is permitted even if it is not specifically prohibited.

110.3 G3 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

- (a) Self-interest threat – that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior;
- (b) Self-review threat – that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by:
 - (i) The professional accountant; or
 - (ii) Another individual within the professional accountant's firm or employing organization,
on which the professional accountant will rely when forming a judgment as part of providing a current service;
- (c) Advocacy threat – that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- (d) Familiarity threat – that due to a long or close relationship with clients or employers, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

- (e) Intimidation threat – that a professional accountant will be deterred from acting objectively because of actual or perceived pressures. This includes attempts to exercise undue influence over the professional accountant.

110.3 G4 When applying the conceptual framework, a professional accountant 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.

110.3 G5 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.

110.3 G6 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.

110.3 G7 Part B discusses safeguards in the work environment for professional accountants in business. Part C of this Code discusses safeguards in the work environment for professional accountants in public practice.

110.3 G8 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;
 - A regulator; or
- An explicitly stated duty to report breaches of ethical requirements.

Subsection 111

Integrity (see R110.1(a))

111.1 The fundamental principle of integrity requires all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness

Requirements and Guidance

- R111.2** A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:
- (a) Contains a materially false or misleading statement;
 - (b) Contains statements or information provided recklessly; or
 - (c) Omits or obscures required information where such omission or obscurity would be misleading.
- R111.3** When a professional accountant becomes aware of having been associated with information described in R110.2, the professional accountant shall:
- (a) Take steps to be disassociated from that information; or
 - (b) Provide a modified report in respect of the information.

Subsection 112

Objectivity (see R110.1(b))

- 112.1 The fundamental principle of objectivity requires all professional accountants to make professional or business judgments without bias, conflict of interest or undue influence of others.

Requirements and Guidance

- R112.2** When undertaking any professional activity, a professional accountant:
- (a) Shall determine whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or its directors, officers or employees; and
 - (b) Shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.
- 112.2 G1 The existence of threats to objectivity when undertaking any professional activity will depend upon the circumstances of the engagement and the nature of the work. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.
- Examples of safeguards include:
- Supervisory procedures;
 - Discussing the issue:
 - With higher levels of management within the firm; or
 - With those charged with governance of the client;
 - Withdrawing from the engagement team; or

- Ending the financial or business relationship causing the threat.

R112.3 A professional accountant in public practice who provides an assurance service shall be independent of the assurance client.

112.3 G1 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 of others.

112.3 G2 Parts C1 and C2 contain independence requirements and guidance for professional accountants in public practice.

Subsection 113

Professional Competence and Due Care (see R110.1(c))

113.1 The fundamental principle of professional competence and due care requires professional accountants to:

- (a) Maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service, based on current developments in practice, legislation and techniques; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

Requirements and Guidance

R113.2 In complying with the fundamental principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

R113.3 Where appropriate, a professional accountant shall make clients, employers, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

113.3 G1 Serving clients and employers with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities, and providing professional services. Professional competence and due care may be divided into two separate phases:

- (a) Attainment of professional competence; and
- (b) Maintenance of professional competence.

113.3 G2 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

- 113.3 G3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

Subsection 114

Confidentiality (see R110.1(d))

- 114.1 The fundamental principle of confidentiality requires professional accountants to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not to:
- (a) Disclose any such information to third parties without proper and specific authority or unless there is a legal or professional right or duty to disclose; or
 - (b) Use the information for the personal advantage of the professional accountant or for the advantage of a third party.

Requirements and Guidance

- R114.2** A professional accountant shall:
- (a) Maintain confidentiality and be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or a close or immediate family member;
 - (b) Maintain confidentiality of information within the firm or employing organization;
 - (c) Maintain confidentiality of information disclosed by a prospective client or employer;
 - (d) Not disclose confidential information acquired as a result of professional and business relationships to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose;
 - (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the professional accountant or for the advantage of a third party;
 - (f) Not use or disclose any confidential information either acquired or received as a result of a professional or business relationship after the business or personal relationship has ended; and
 - (g) Take reasonable steps to ensure that staff under the professional accountant's control, and persons from whom advice and assistance is obtained, respect the professional accountant's duty of confidentiality.
- 114.2 G1 The requirement to comply with the principle of confidentiality continues even after the end of the relationship between a professional accountant and a client or employer. When changing employment or acquiring a new client, the professional accountant is entitled to use prior experience but may not use or disclose any confidential information acquired or received as a result of a professional or business relationship.
- 114.2 G2 The following are circumstances where professional accountants may be required to disclose confidential information or when such disclosure may be appropriate:

- (a) Disclosure is permitted by law and is authorized by the client or the employer;
- (b) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional body or regulatory body;
 - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
 - (iv) To comply with technical standards and ethics requirements.

114.2 G3 In deciding whether to disclose confidential information, factors to consider include:

- Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts;
 - Incomplete information; or
 - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

Subsection 115

Professional Behavior (see R110.1(e))

115.1 The fundamental principle of professional behavior requires professional accountants to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession. Actions that may discredit the profession include actions that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

Requirements and Guidance

Marketing Professional Services

- R115.2** When marketing or promoting themselves and their work, professional accountants shall not bring the profession into disrepute. Professional accountants shall be honest and truthful and shall not make:
- (a) Exaggerated claims for:
 - (i) The services they are able to offer;
 - (ii) Their qualifications; or
 - (iii) Their experience.
 - (b) Disparaging references or unsubstantiated comparisons to the work of others.
- R115.3** If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the professional accountant shall consider consulting with the professional body.

Subsection 116

Ethical Conflict Resolution

Requirements and Guidance

- R116.1** When resolving a conflict in complying with the fundamental principles, the professional accountant shall:
- (a) Consider the consequences of each possible course of action;
 - (b) Determine the appropriate course of action;
 - (c) If the matter involves a conflict with, or within, an organization, determine whether to consult with those charged with governance of the organization.
 - (d) If, after exhausting all relevant possibilities, the ethical conflict is unresolved:
 - (i) Refuse to remain associated with the matter creating the conflict where possible; and
 - (ii) Determine whether in the circumstances it is appropriate to withdraw from the engagement team or specific assignment or resign from the engagement, the firm or the employing organization.
- 116.1 G2 The following factors, individually or with others, may be relevant to the resolution process:
- (a) Relevant facts.
 - (b) Ethical issues involved including the fundamental principles.
 - (c) Established internal procedures.
 - (d) Consulting other appropriate people within the firm or employing organization.
 - (e) Alternative courses of action.

- 116.1 G3 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.
- 116.1 G4 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the professional body or from legal advisors. The professional accountant can generally obtain guidance on ethical issues without breaching the fundamental principle of confidentiality by discussing the matter:
- With the professional body on an anonymous basis; or
 - With a legal advisor under the protection of legal privilege.
- 116.1 G5 The professional accountant may consider obtaining legal advice in various situations. 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.

The Text from 100.25 set out below will be removed from Part A and included in both Part B and Part C as Part of Scope/Introduction

Those Charged with Governance

RXXX.X¹ 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.

XXX.X 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.

XXX.X 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.

¹ In Part C, these references are R300.4, R300.4 G1 and G2. Part B references are not yet available.