

Agenda Item 2-B

The Safeguards Task Force is putting forward proposed changes to certain paragraphs within Sections 100 and 200 of the extant Code (see Agenda Items 3, 3-A and 3-B). Accordingly, those paragraphs have been omitted from the draft restructured Code. The extant version of the other paragraphs that form part of the Safeguards Task Force project scope¹ are presented in regular type and shaded grey.

The Safeguards Task Force plans to consider conforming changes resulting from its proposals relating to Section 100 and Section 200 at its October 2015 meeting. Areas in the extant Code that the Safeguards Task Force believes may be subject to conforming or consequential changes resulting from the Safeguards project, based on its proposals relating to Section 100 and Section 200, are presented in italic font and also shaded in grey.

It is planned that the December 2015 version of the draft restructured Code will incorporate the proposed revisions developed by the Safeguards Task Force to Sections 100 and 200 (see Agenda Item 3 for a discussion the of timing of the Safeguards project).

Paragraphs R400.12 to 400.12 A3, are shown in italic text because they represent the first draft of changes to extant Code paragraph 290.12 on responsibility. The issue of responsibility is currently considered in liaison with the IAASB and so these paragraphs are not available for review.

¹ The January 2015 approved Safeguards Project Proposal indicate that the Safeguards project scope will encompass:

- The subsection in Section 100, entitled *Threats and Safeguards* (paragraphs 100.12–100.16) in Section 100.
- The subsection in Section 200, entitled *Threats and Safeguards* (paragraphs 200.3–200.15) in Section 200.
- The section in Section 290, entitled *Application of the Conceptual Framework Approach to Independence* (paragraphs 290.100 to 290.101).
- The section in Section 290, entitled *Provision of Non-Assurance Services to an Audit Client* (paragraphs 290.154 to 290.216).
- Necessary conforming changes to Section 291 resulting from any of the potential changes to Section 290.

(MARK-UP FROM JUNE-JULY 2015 IESBA SUPPLEMENT)

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.~~

Commented [SS1]: 100.1

100.2 This CodePart contains requirements and guidanceapplication material for professional accountants regarding matters that are integral to acting in the public interest, namely:

Commented [SS2]: New paragraph

- (a) The fundamental principles of ethics for professional accountants;
- (b) The conceptual framework approach which includes addressing threats to compliance with those fundamental principles and implementing safeguards where necessary; and
- ~~(c) The approach to ethical conflict resolution.~~

100.3 2 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.

100.3 ~~Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.~~

Commented [SS3]: 100.1

Terms Used

100.4 In Part A, "professional accountant" refers to:

Commented [SS4]: New paragraph

- (a) Professional accountants in business;
- (a) Professional accountants in public practice; and
- (b) Firms of professional accountants in public practice.

Requirements and GuidanceApplication Material

R100.45 In acting in the public interest a professional accountant shall comply with this Code. There might 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.

Commented [SS5]: 100.1

R100.56 A professional accountant who identifies a breach of this Code shall:

Commented [SS6]: 100.10

- (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 might 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 ~~might 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 ~~these Parts C~~.

~~The safeguards project scope includes extant Code paragraphs 100.12 – 100.16 which are equivalent to post-CP draft restructured Code paragraphs R120.1110.2 – 120.2 A8110.3 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

Introduction

Requirements and Guidance

Fundamental Principles

~~R110.1~~ There are five ~~A~~ professional accountant shall comply with the following fundamental principles ~~of ethics for professional accountants~~:

Commented [SS7]: 100.5

- (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 might ~~may~~ would discredit the profession. ~~(See Subsection 115).~~

110.2 Subsections 111 to 115 contain requirements and application material related to each of these fundamental principles.

Subsection 111

Integrity ~~(see R110.1(a))~~

~~Requirements and Guidance~~ Application Material

R111.1- A professional accountant shall comply with tThe fundamental principle of integrity which requires a all professional accountants to be straightforward and honest in all professional and business relationships.

Commented [SS8]: 110.1

111.1 A1 Integrity also implies fair dealing and truthfulness.

Commented [SS9]: 110.1

~~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:

Commented [SS10]: 110.2

- (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 R1110.2, the professional accountant shall:

Commented [SS11]: 110.2 , 110.3

- (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))~~

~~Requirements and Guidance~~ Application Material

R112.1- A professional accountant shall comply with tThe fundamental principle of objectivity which requires a all professional accountants to make professional or business judgments without bias, conflict of interest or undue influence of others.

Commented [SS12]: 120.1, 280.1

~~Requirements and Guidance~~

R112.2 A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Commented [SS13]: 120.2

112.2 AG1 The existence of threats to objectivity when undertaking any professional activity will depend upon the circumstances and nature of the work. For example, a familiarity threat to objectivity might may be created by a family or close personal or business relationship.

Commented [SS14]: 120.2, 280.1, 280.3

Examples of safeguards include:

[EH16]: Examples of safeguards

Commented [SS17]: 280.4

- 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 activity or 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.

Commented [SS18]: 280.2

112.3 AG1 Independence of mind and in appearance is necessary to enable the professional accountant to express, and be seen to express, an objective conclusion when providing an assurance service. Such a conclusion is one without bias, conflict of interest or undue influence of others.

Commented [SS19]: 280.2

112.3 AG2 Parts C1 and C2 contain independence requirements and guidance application material for professional accountants in public practice.

Commented [SS20]: 280.2

Subsection 113

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

Requirements and Application Material Guidance

R113.1 A professional accountant shall comply with tThe fundamental principle of professional competence and due care which requires a professional accountants to:

Commented [SS21]: 130.1

- (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.

(c)(b) 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.

Commented [SS22]: 130.5

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.

Commented [SS23]: 130.6

113.3 AG1 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 might ~~may~~ be divided into two separate phases:

Commented [SS24]: 130.2

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

113.3 AG2 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.

Commented [SS25]: 130.3

113.3 AG3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

Commented [SS26]: 130.4

Subsection 114

Confidentiality (see R110.1(d))

Requirements and Application Material

R114.1 A professional accountant shall comply with the fundamental principle of confidentiality which requires a professional accountants to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not to:

Commented [SS27]: 140.1

- (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 duty or right 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;

Commented [SS28]: 140.2

Commented [SS29]: 140.4

Commented [SS30]: 140.3

Commented [SS31]: 140.1(a)

Commented [SS32]: 140.1(b)

(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

Commented [SS33]: 140.6

(g) Take reasonable steps to ensure that personnel~~staff~~ under the professional accountant's control, and individuals~~persons~~ from whom advice and assistance is obtained, respect the professional accountant's duty of confidentiality.

Commented [SS34]: 140.5

114.2 AG1 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.

Commented [SS35]: 140.6

114.2 AG2 The following are circumstances where professional accountants might~~may~~ be required to disclose confidential information or when such disclosure might~~may~~ be appropriate:

Commented [SS36]: 140.7

(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 AG3 In deciding whether to disclose confidential information, factors to consider include:

Commented [SS37]: 140.8

- Whether the interests of all parties, including third parties whose interests might~~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 R110.4(e))

Requirements and GuidanceApplication Material

R115.1 A professional accountant shall comply with the fundamental principle of professional behavior which requires a professional accountant to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know might may discredit the profession.

Commented [SS38]: 150.1

115.1 A1 Actions that might 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.

Commented [SS39]: 150.1

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:

Commented [SS40]: 150.2, 250.2

- (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 relevant professional body.

Commented [SS41]: 250.2

Conceptual Framework

Section 120

The Conceptual Framework

Requirements and Application Material

R120.12 Paragraphs 120.1 to 120.2 A8 have been removed from this text as they are under review by the Safeguards Task Force.

Commented [SS42]: 100.2

A professional accountant shall use professional judgment to:

Commented [SS43]: 100.7

- (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.

R1210.23 In complying with the provisions set out in paragraphs R110.1 and R110.2, a professional accountant shall:

~~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 might may compromise compliance with them;~~

Commented [SS44]: 100.8

(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~~

Commented [SS45]: 100.7

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

Commented [SS46]: 100.9

~~1210.23 AG1 The circumstances in which professional accountants operate might 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 might may differ and, consequently, different threats might 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.~~

Commented [SS47]: 100.6

~~1210.23 AG2 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.~~

Commented [SS48]: 100.6

~~1210.23 AG3 Threats might 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 might may create more than one threat, and a threat might may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:~~

Commented [SS49]: 100.12

~~Self-interest threat — that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior;~~

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;

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;

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

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.

~~1210.23 AG4 — When applying the conceptual framework, a professional accountant might may encounter situations in which threats cannot be eliminated or reduced to an acceptable level. This might may be either because the threat is too significant or because appropriate safeguards are not available or cannot be applied.~~

Commented [SS50]: 100.9

~~1210.23 AG5 — Safeguards are actions or other measures that might may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:~~

Commented [SS51]: 100.13

~~Safeguards created by the profession, legislation or regulation; and~~

~~Safeguards in the work environment.~~

~~1210.23 AG6 — Safeguards created by the profession, legislation or regulation include:~~

Commented [SS52]: 100.14

~~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.~~

~~1210.23 AG7 — 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.~~

Commented [SS53]: 100.15

~~1210.23 AG8 — Certain safeguards might may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which might may be created by the accounting profession, legislation, regulation or an employing organization, include:~~

Commented [SS54]: 100.16

~~Effective complaint systems operated by:~~

The employing organization;

The profession;

A regulator; or

An explicitly stated duty to report breaches of ethical requirements.

Subsection 13016

Clarifying Ethical Obligations Conflict Resolution

Requirements and Guidance Application Material

R13016.1 When resolving a conflict in complying with the fundamental principles, the professional accountant shall:

Commented [SS55]: 100.19

(a) Consider the consequences of each possible course of action;

Commented [SS56]: 100.20

(b) Determine the appropriate course of action;

Commented [SS57]: 100.20

(c) If the matter involves a conflict with, or within, an organization, determine whether to consult with those charged with governance of the organization.

Commented [SS58]: 100.21

(d) If, after exhausting all relevant possibilities, the ethical conflict is unresolved:

Commented [SS59]: 100.24

(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.

13016.1 AG2 The following factors, individually or with others, might may be relevant to the resolution process:

Commented [SS60]: 100.20

(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.

13016.1 AG3 It might 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.

Commented [SS61]: 100.22

13016.1 AG4 If a significant conflict cannot be resolved, a professional accountant might 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:

Commented [SS62]: 100.23

• With the professional body on an anonymous basis; or

• With a legal advisor under the protection of legal privilege.

~~13016.1 AG5—Instances in which the professional accountant might may consider obtaining legal advice vary. For example, a professional accountant might may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant might may consider obtaining legal advice in that instance to determine whether there is a requirement to report.~~

Commented [SS63]: 100.23

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. Additional material from extant Parts B and C will be included as appropriate.

Those Charged with Governance

RXXX.X² When communicating with those charged with governance, the professional accountant shall determine the appropriate ~~individual~~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.

Commented [SS64]: 100.25

XXX.X A1 In determining with whom to communicate, the professional accountant ~~might may~~ consider:

Commented [SS65]: 100.25

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

XXX.X A2 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 ~~might may~~ also be necessary to ensure they are adequately informed.

Commented [SS66]: 100.25

² In Part C, this reference is R300.3. Part B references are not yet available.

The Conceptual Framework contained in Section 1240 applies in all circumstances

~~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 1240 applies to professional accountants in public practice. This Part does not describe all of the circumstances and relationships that could be encountered by professional accountants¹ 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.

Commented [SS1]: 200.1

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~~Application Material

R300.23 A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework contained in Section 1240 in relation to threats to those fundamental principles.

Commented [SS2]: 100.5 and 100.7 to 100.9

Conceptual Framework – Threats and Safeguards

Threats

300.23 AG12 Paragraphs 300.2 A1 to 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:

Commented [SS3]: 200.3

~~The provision of services to an audit client² and whether such a client is a public interest entity;~~

¹ In Part C and in C1 and C2 “professional accountant” refers to professional accountants in public practice and firms of professional accountants in practice.

² In Part C and in C1, “audit client” includes “review client”.

The Conceptual Framework Contained in Section 1240 applies in all circumstances

~~An assurance client that is not an audit client; or~~

~~A non-assurance client.~~

~~300.23 AG23 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 1210.23 AG3, to 1210.23 AG4 and 300.23 AG4 to 300.23 AG8 of this Code.~~

~~300.23 AG34 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.~~

~~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 team³ 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.~~

~~300.23 AG45 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.~~

Commented [SS4]: 200.3

Commented [SS5]: 200.4

Commented [SS6]: 200.5

³ In Part C and in C1, "audit team" includes "review team".

The Conceptual Framework Contained in Section 1240 applies in all circumstances

~~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.~~

~~300.23 AG56 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.~~

~~300.23 AG67 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.~~

~~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.~~

~~300.23 AG78 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.~~

Commented [SS7]: 200.6

Commented [SS8]: 200.7

Commented [SS9]: 200.8

The Conceptual Framework Contained in Section 1240 applies in all circumstances

Evaluation of Threats

~~300.23 AG89 The evaluation of threats may~~might ~~be affected by matters such as:~~

Commented [SS10]: 200.10

~~The significance of the threat;~~

~~The nature of the engagement; and~~

~~The structure of the firm.~~

~~300.23 AG910 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.~~

Commented [SS11]: 200.14

~~300.32 AG1011 Examples of safeguards within the client that may~~might ~~impact the significance of a threat include:~~

Commented [SS12]: 200.15

~~The client requires individuals 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

~~300.32 AG1112 Safeguards that may~~might ~~eliminate or reduce threats to an acceptable level fall into two broad categories:~~

Commented [SS13]: 200.09

~~(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 1210.23 AG6 of this Code.~~

~~300.23 AG1213 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement-specific safeguards.~~

Commented [SS14]: 200.11

~~300.23 AG1314 Examples of firm-wide safeguards in the work environment include:~~

Commented [SS15]: 200.12

~~Leadership of the firm that stresses the importance of compliance with the fundamental principles.~~

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~~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 personnel, 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 personnel 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 personnel to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.~~

~~300.23 AG1415 have been removed from this text as they are under review by the Safeguards Task Force. — 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.~~

Commented [SS16]: 200.13

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~~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.~~

Those Charged with Governance

R300.34 When communicating with those charged with governance, the professional accountant shall determine the appropriate individual 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.

Commented [SS17]: 100.25, 290.28

~~300.34 A1 Even when not required by the Code, applicable professional auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear threats to compliance with the fundamental principles on independence. Such communication enables those charged with governance to:~~

~~(a) Consider the firm's judgments in identifying and evaluating threats to the fundamental principles on independence;~~

~~(b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and~~

~~(c) Take appropriate action.~~

~~Such an approach can be particularly helpful with respect to intimidation and familiarity threats.~~

300.34 A12G1 In determining with whom to communicate, the professional accountant may consider:

Commented [SS18]: 100.25

- The nature and importance of the circumstances; and

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- The matter to be communicated.

300.34 A23G2 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~~ might also be necessary to ensure they are adequately informed.

Commented [SS19]: 100.25

Section 310

Conflicts of Interest

Scope of this Section

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

Commented [SS20]: New paragraph

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

Commented [SS21]: 220.1

310.32 A conflict of interest ~~may~~ might arise when:

Commented [SS22]: 220.1

- 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
- 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 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.

Commented [SS23]: 220.1

Requirements and ~~Guidance~~ Application Material

R310.5 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

Commented [SS24]: 220.1

R310.6 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.

Commented [SS25]: 220.6

The Conceptual Framework Contained in Section 1240 applies in all circumstances

Conflict Identification

310.6 AG1 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.

Commented [SS26]: 220.6

310.6 AG2 Circumstances that might create a conflict of interest 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.

Commented [SS27]: 220.2

310.6 AG3 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

Commented [SS28]: 220.7

The Conceptual Framework Contained in Section 1240 applies in all circumstances

the professional accountant being able to apply safeguards to eliminate the threat.

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.

310.6 AG4 — More information on client acceptance is contained in Section 320, *Professional Appointment*.

Commented [SS29]: New paragraph

Changes in Circumstances

R310.7 A professional accountant shall remain alert to changes in the circumstances that might create a conflict of interest during an engagement.

Commented [SS30]: 220.6

310.7 AG1 — 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.

Commented [SS31]: 220.6

Network Firms

R310.8 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.

Commented [SS32]: 220.8

310.8 AG1 — Reasonable steps to identify interests and relationships involving a network firm will depend on factors such as:

Commented [SS33]: 220.8

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

Applying the Conceptual Framework to Conflicts of Interest

R310.9 ~~In relation to a conflict of interest, a~~ professional accountant shall apply the conceptual framework contained in Section 149120: *in relation to a conflict of interest*.

Commented [SS34]: New paragraph

310.9 AG1 Factors that *may* be considered when evaluating a threat created by a conflict of interest include the significance of:

Commented [SS35]: 220.9

The Conceptual Framework Contained in Section 1240 applies in all circumstances

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

310.9 AG2 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.

Commented [SS36]: 220.9

310.9 AG3 Examples of safeguards include:

Commented [SS37]: Examples of safeguards

Commented [SS38]: 220.10

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

Disclosure and Consent

R310.10 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.

Commented [SS39]: 220.11

310.10 AG1 It is generally necessary:

Commented [SS40]: 220.11

- 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 Conceptual Framework Contained in Section 1240 applies in all circumstances

the consent of the affected clients to perform the professional services.

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.

310.10 **AG2** 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.

Commented [SS41]: 220.11

310.10 **AG3** If disclosure or consent is not in writing, the professional accountant is encouraged to document:

Commented [SS42]: 220.13

- 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.

R310.11 If a professional accountant has determined that explicit consent is necessary in accordance with R310.108 and the client has refused, the professional accountant shall either:

Commented [SS43]: 220.12

- (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.

The Conceptual Framework Contained in Section 1240 applies in all circumstances

Confidentiality

R310.12 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.

Commented [SS44]: 220.4

R310.13 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:

Commented [SS45]: 220.14

- (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.

310.13 A1 For example, a breach of confidentiality might arise when seeking consent to perform:

Commented [SS46]: 220.14

- 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.
- ; and

R310.14 The professional accountant shall document:

Commented [EH47]: 220.14

- (a) The nature of the circumstances, including the role that the professional accountant is to undertake;
- (b) The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and
- (c) Why it is appropriate to accept the engagement.

310.13 AG1 For example, a breach of confidentiality might arise when seeking consent to perform:

Commented [SS48]: 220.14

- 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

The Conceptual Framework Contained in Section 1240 applies in all circumstances

fraud.

Section 320

Professional Appointment

Scope of this Section

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

Commented [SS49]: New paragraph

320.2 G4 Changes in professional appointments, including accepting a new client or engagement, may create threats to compliance with each of the fundamental principles.

Commented [SS50]: 210.5, 9

Requirements and Guidance Application Material

R320.32 In relation to professional appointment, A professional accountant shall apply the conceptual framework contained in Section 1240 in relation to a professional appointment.

Commented [SS51]: 210.01, 06

Commented [SS52]: 210.01, 06

Client Acceptance and Continuance

320.32 AG12 In some circumstances, a professional accountant 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.

Commented [SS53]: 210.1, 2

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;

320.32 AG3 It is recommended that a professional accountant periodically review acceptance decisions for recurring client engagements.

Commented [SS54]: 210.5

Engagement Acceptance

320.32 AG4 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.

Commented [SS55]: 210.6

Examples of safeguards include:

- Acquiring an appropriate understanding of:
 - The nature of the client's business;

Commented [SS56]: Examples of safeguards

Commented [SS57]: 210.7

The Conceptual Framework Contained in Section 1240 applies in all circumstances

- *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.*
- *Using experts where necessary.*

Changes in Professional Appointment

R320.43 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.

Commented [SS58]: 210.9

Commented [SS59]: 210.12

320.43 AG1 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.

Commented [SS60]: 210.9

320.43 AG2 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.

Commented [SS61]: 210.12

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.*

Commented [SS62]: Examples of safeguards

Commented [SS63]: 210.11

The Conceptual Framework Contained in Section 1240 applies in all circumstances

- 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.

Commented [SS64]: 210.11

320.43 AG3 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.

Commented [SS65]: 210.10

320.43 AG4 A professional accountant will generally need the client's permission, preferably in writing, to approach the existing professional accountant.

Commented [SS66]: 210.14

R320.54 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.

Commented [SS67]: 210.14

R320.65 When an existing professional accountant is asked to respond to a communication from a proposed accountant, the existing professional accountant shall:

Commented [SS68]: 210.14

- (a) Comply with relevant law and regulation governing the request; and
- (b) Provide any information honestly and unambiguously.

320.65 AG1 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;

Commented [SS69]: 210.13

- (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.

320.65 AG2 Circumstances where a professional accountant *may* be required to disclose confidential information, or where disclosure *may* be appropriate, are contained in paragraph 114.2 AG2 and 114.2 AG3 of this Code.

Commented [SS70]: 210.13

The Conceptual Framework Contained in Section 1240 applies in all circumstances

Second Opinions

R320.76 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.

Commented [SS71]: 230.3

320.76 AG1 Professional accountants ~~may~~ might 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.

Commented [SS72]: 230.1

320.76 AG2 Providing a second opinion to an entity that is not an existing client ~~may~~ might create threats to compliance with the fundamental principles. For example, there ~~may~~ might 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.

Commented [SS73]: 230.1, .2

Examples of safeguards include:

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

Reliance on an Expert

R320.87 When a professional accountant intends to use the work of an expert, the professional accountant shall determine whether the use is warranted.

Commented [SS74]: 210.8

320.87 AG1 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~~ might be gained from prior association with the expert or from consulting others.

Commented [SS75]: 210.8

Section 330

Fees and Other Types of Remuneration

Scope of this Section

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

Commented [SS76]: New paragraph

The Conceptual Framework Contained in Section 1240 applies in all circumstances

330.2 ~~The level and nature of fee and other remuneration arrangements may create threats to each of the fundamental principles, objectivity and professional competence and due care.~~

Commented [SS77]: New paragraph

Requirements and Guidance Application Material

R330.32 ~~In relation to fees and remuneration, A~~ professional accountant shall apply the conceptual framework contained in Section 140120: ~~in relation to fees and remuneration.~~

Commented [SS78]: 240.1,2

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

330.32 AG12 The level of fees quoted ~~may impact~~ a professional accountant's ability to perform professional services in accordance with professional standards.

Commented [SS79]: 240.1 240.2

330.32 AG23 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.

Commented [SS80]: 240.01

Examples of safeguards include:

Commented [SS81]: 240.2

- *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~~ personnel to the task.*

Contingent Fees

330.32 A3G4 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:

Commented [SS82]: 240.3

- 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:

Commented [SS83]: Examples of safeguards

- *An advance written agreement with the client on the basis of remuneration;*

Commented [SS84]: 240.4

The Conceptual Framework Contained in Section 1240 applies in all circumstances

- *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.*

330.32 A4G5 Contingent fees for non-assurance services provided to audit clients and other assurance clients are contained in Parts C1 and C2 of this Code.

Commented [SS85]: New paragraph

Referral Fees or Commissions

330.32 A5G6 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:

Commented [SS86]: 240.5

- 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.

330.32 A6G7 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.

Commented [SS87]: 240.6

330.32 A7G8 Examples of safeguards include:

Commented [SS88]: 240.7

- *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.*

330.32 A8G9 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 R330.31.

Commented [SS89]: 240.8

The Conceptual Framework Contained in Section 1240 applies in all circumstances

Section 340

Gifts and Hospitality

Scope of this Section

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

Commented [SS90]: New paragraph

340.2 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.

Commented [SS91]: 260.1

Requirements and Guidance Application Material

R340.32 In relation to gifts and hospitality, A professional accountant shall apply the conceptual framework contained in Section 1240 in relation to gifts and hospitality.

Commented [SS92]: 260.3

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.

340.32 A1G2 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.

Commented [SS93]: 260.2

Section 350

Custody of Client Assets

Scope of this Section

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

Commented [SS94]: New paragraph

350.2 Holding client assets creates threats to compliance with the fundamental principles, for example a self-interest threat to professional behavior and objectivity.

Commented [SS95]: 270.2

Requirements and Guidance Application Material

R350.32 In relation to assuming custody of client money or other assets, A professional accountant shall apply the conceptual framework contained in Section 1240 in relation to assuming custody of client money or other assets.

Commented [SS96]: New paragraph

The Conceptual Framework Contained in Section 1240 applies in all circumstances

350.32 AG1 ~~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~~ might 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.

Commented [SS97]: 270.2

R350.43 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.

Commented [SS98]: 270.1*

R350.54 As part of client and engagement acceptance procedures in relation to assuming custody of client money or assets, a professional accountant shall:

Commented [SS99]: 270.3

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

350.54 AG1 Inquiries about the source of client assets ~~may~~ might 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.

Commented [SS100]: 270.3

R350.65 A professional accountant entrusted with money or other assets belonging to others shall:

Commented [SS101]: 270.2

- (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 ~~individuals~~ persons entitled to that accounting; and
- (d) Comply with the laws and regulations relevant to holding and accounting for the assets.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

Draft restructured Code Tranche I

~~Paragraphs R400.135 to 400.135 G3 are highlighted in grey because they represent the first draft of changes to extant Code paragraph 290.12 on responsibility. The issue of responsibility is currently considered in liaison with the IAASB and so these paragraphs are not available for review but have been included for the sake of completeness.~~

Part C1 INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 400

Application of Conceptual Framework to Independence for Audits and Reviews

Scope of C1 this Part

- 400.1 *Independence is a measure of objectivity that professional accountants apply when performing audit engagements. It is in the public interest and, therefore, required by this Code that members of audit teams¹, firms and network firms be independent of audit and review clients².*
- 400.2 *Part C1 contains requirements and guidance application material for professional accountants in public practice on maintaining independence when performing audit and review engagements³. These engagements are assurance engagements in which a professional accountant⁴ expresses a conclusion on financial statements. Such engagements involve reporting on a complete set of financial statements or on a single financial statement.*
- 400.3 *Part C1 describes circumstances and relationships that create cause or may might create cause threats to independence. It describes the potential threats and safeguards that may might be appropriate to eliminate the threats or reduce them to an acceptable level. It identifies situations where no safeguards could reduce the threats to an acceptable level but does not describe all situations that may might create cause a threat. The conceptual framework requires a professional accountant to evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 300.23 A8G11 to A14G15, can be applied to eliminate the threats to independence or reduce them to an acceptable level.*

Commented [SS1]: 290.4

Commented [SS2]: 290.1

Commented [SS3]: 290.5,8,9,100

¹ In C1, "audit team" includes "review team".

² In C1, "audit client" includes "review client" and related entities of the audit client – see Glossary for more detail.

³ In C1, "audit engagement" includes "review engagement".

⁴ In C1, "professional accountant" refers to professional accountants in public practice and firms of professional accountants in practice

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

400.4 Independence requirements for assurance engagements that are not audit or review engagements are contained in Part C2.

Commented [SS4]: 290.1 last sentence

400.5 An audit report⁵ may~~might~~ include a restriction on use and distribution. If it does, the independence requirements in C1 this part may be modified as provided in Section 499 paragraphs XXX. X to XXX.XX⁶, if the conditions set out in those paragraphs are met. These modifications are not permitted for an audit of financial statements which is required by law or regulation.

Commented [SS5]: 290.2

Terms Used

400.6 In Part C1:

~~"Audit," "audit team", "audit engagement", "audit client" and "audit report" include review, review team, review engagement, review client and review report, respectively;~~

Commented [SS6]: 290.3

~~"Audit client" includes related entities of the client (unless otherwise stated), as contained in paragraph R400.10 and~~

Commented [SS7]: 290.27

~~"Professional accountant" refers to:~~

~~A professional accountant in public practice; and~~

~~A firm of professional accountants in public practice.~~

~~"Engagement period":~~

Commented [SS8]: 290.30

~~Starts when the audit team begins to perform audit services; and~~

~~Ends when the audit report is issued.~~

~~If the engagement is recurring, the engagement period ends at the later of;~~

~~(iii) The notification by either party that the professional relationship has terminated; or~~

~~(iv) The final audit report being issued.~~

Public Interest Entities

400.7 ~~Part C1 contains additional provisions that apply to public interest entities⁷. Firms are encouraged to determine whether to treat entities, or certain categories of entities, that have a large number and wide range of stakeholders, as public interest entities. Factors to be considered include:~~

Commented [SS9]: 290.25, 290.26

⁵ In C1, "audit report" includes "review engagement report"

⁶ These reference numbers are not yet available. The cross-reference is to extant Code concerning Reports that Include a Restriction on Use and Distribution, paragraph numbers 290.500 to 290.514.

⁷ Public Interest Entity is a defined term, see definitions section for further details.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

~~The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;~~

~~Size; and~~

~~Number of employees.~~

Requirements and **GuidanceApplication Material**

R400.68 ~~In relation to an audit engagement, Aa professional accountant shall apply the conceptual framework contained in Section 140120: when assessing independence in relation to an audit engagement.~~

Commented [SS10]: New paragraph, relating to 290.5

R400.79 In applying the conceptual framework, a professional accountant shall:

(a) ~~When evaluating the significance of threats to independence, take qualitative as well as quantitative factors into account;~~

Commented [SS11]: 290.11

(b) ~~If 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 team, determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level;~~

Commented [SS12]: 290.10

(c) ~~If the decision is whether to continue an audit engagement, determine whether:~~

Commented [SS13]: 290.10

(i) ~~Any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level;~~

(ii) ~~Other safeguards will need to be applied; or~~

(iii) ~~The engagement needs to be endedterminated; and~~

(d) ~~Whenever new information about a threat to independence comes to the attention of the professional accountant during an audit engagement, evaluate the significance of that threat in accordance with the conceptual framework approach.~~

Commented [SS14]: 290.10

R400.840 As defined, an audit client that is a listed entity includes all of its related entities. An audit client that is not a listed entity is defined to include those related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

Commented [SS15]: 290.27

~~General Documentation~~

R400.911 ~~A professional accountant shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:~~

Commented [SS16]: 290.29

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

~~(a) When safeguards are required to reduce a threat to an acceptable level, the professional accountant shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and~~

~~(b) When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the professional accountant shall document the nature of the threat and the rationale for the conclusion.~~

400.911 AG1 ~~Paragraph R400.911 sets out specified documentation requirements. However, a lack of documentation does not determine whether a professional accountant considered a particular matter or whether a professional accountant is independent.~~

Commented [SS17]: 290.29

Engagement Period

R400.98102 A professional accountant performing an audit engagement shall be independent of the audit client during both:

Commented [SS18]: 290.4 & 30

- (a) The engagement period; and
- (b) The period covered by the financial statements.

R400.109113 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are ~~create~~caused by:

Commented [SS19]: 290.31

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous services provided to the audit client by the firm or network firm.

R400.11024 If a non-assurance service was provided to the audit client during, or after the period covered by the financial statements, but before the audit team begins to perform audit services, and the service would not be permitted during the engagement period, the firm shall evaluate any threat to independence ~~create~~caused by the service. If a threat is not at an acceptable level, the firm shall only accept the audit engagement if safeguards are applied to eliminate any threats or reduce them to an acceptable level.

Commented [SS20]: 290.32

400.11024 AG1 Examples of safeguards include:

Commented [SS21]: 290.32

- Not including ~~individuals people~~ who provided the non-assurance service as members of the audit team;
- Having a professional accountant review the audit and non-assurance work as appropriate;
- Engaging another firm to evaluate the results of the non-assurance service; or
- Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

Establishing Policies and Procedures for Compliance with this Code

R400.1235 A firm shall establish, implement and maintain policies and procedures, appropriately documented and communicated within the firm, to:

Commented [SS22]: New paragraph.

- (a) Identify those individuals with appropriate authority who, in particular circumstances, are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code;
- (b) Maintain compliance with this Code by relevant individuals within the firm and, as applicable, their immediate family; and
- (c) Require communication of threats to and breaches of independence to relevant individuals who are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code.

400.12135 AG1 Individuals who are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code ~~may~~ might include:

Commented [SS23]: New paragraph

- (a) The engagement partner;
- (b) Senior individuals responsible for ethics or independence matters for the firm;
- (c) Any other individual within the firm identified as a responsible individual in relation to a particular matter.

400.12135 AG2 Policies that enable identification of responsible individuals may differ depending on the size, structure and organization of a firm. 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.

Commented [SS24]: 290.12

400.12135 AG3 The identification of individuals who are responsible for taking appropriate action on behalf of the firm does not relieve a professional accountant of individual responsibility to comply with the Code.

Commented [SS25]: New paragraph

Those Charged with Governance

R400.123 A professional accountant shall comply with paragraph R300.3 when communicating with those charged with governance.

Commented [SS26]: New paragraph

400.132 A1 Even when not required by the Code, applicable professional standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear threats to compliance with the fundamental principles. Such communication enables those charged with governance to:

Commented [SS27]: 290.28

- (a) Consider the firm's judgments in identifying and evaluating threats to the fundamental principles;
- (b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

(c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

Subsection 401

401 – Network Firms

Introduction

401.1 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures 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 might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.

Commented [SS28]: 290.14

Requirements and Application Material

R401.2146 A network firm shall be independent of the audit clients of the other firms within the network unless otherwise stated in this Code.

Commented [SS29]: 290.13

R401.3157 When associated with a larger structure of other firms and entities, a firm shall:

Commented [SS30]: 290.15

- (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, 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.

401.317 AG1 The independence requirements in Part C1 that apply to a network firm apply to any entity that meets the definition of a network firm. The entity need not also meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

Commented [SS31]: 290.13

401.317 AG2 Whether the larger structures that are established by firms create a network depends on the circumstances. This 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

Commented [SS32]: 290.14

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

~~common brand name, a common system of quality control or significant professional resources the larger structure is a network.~~

4010.317 AG23 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.

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4010.317 AG34 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.

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4010.317 AG45 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.

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4010.317 AG56 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.

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4010.317 AG67 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.

Commented [SS37]: 290.20

4010.317 AG78 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it ~~may~~ might appear to belong to a network if its stationery or promotional materials refer to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership a perception ~~may~~ might be created that the firm belongs to a network.

Commented [SS38]: 290.21

4010.317 AG89 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:

Commented [SS39]: 290.23

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Partners and ~~other personnel~~ staff.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

- 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.

4010.317 AG910 Whether the shared professional resources are significant depends on the circumstances. For example:

Commented [SS40]: 290.24

- 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 the shared resources involve the exchange of personnel people or information, such as where personnel 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.

R4010.4168 If a firm or a network sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the sold component might may continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation and are therefore not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

Commented [SS41]: 290.22

Subsection 402

General Documentation

Introduction

402.1 Documentation of the work performed by a professional accountant serves several purposes, including: __

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- (a) Facilitating a logical approach to the consistent application of professional standards to engagements;
- (b) Providing Establishing evidence of the nature and extent of work in applying those standards;
- (c) Demonstrating how professional judgement has been exercised to form conclusions in relation to an engagement;
- (d) Supporting proper review and analysis of decisions made and work performed;
- (e) Assisting with resolving issues that might arise after completion of an engagement; and

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

(d) Providing support for the professional accountant's work, should it later be called into question.

Requirements and Application Material

R4020.19 A professional accountant shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

(e)(a) When safeguards are required to reduce a threat to an acceptable level, the professional accountant shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and

(e)(b) When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the professional accountant shall document the nature of the threat and the rationale for the conclusion.

Commented [SS43]: 290.29

4020.19 A1 Paragraph R4020.19 contains sets-out specified documentation requirements. However, a lack of documentation does not determine whether a professional accountant considered a particular matter or whether a professional accountant is independent.

Commented [SS44]: 290.29

Subsection 403

Merger and acquisitions

Introduction

R4030.179 An entity may become a related entity of an audit client because of a merger or acquisition. A threat to independence, and therefore, the ability of a firm to continue an audit engagement might be created caused by as a result of previous or current interests or relationships between a firm and such a related entity.

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Requirements and Application Material

R403.2 In the circumstance described in paragraph 403.1 ~~that case,~~ the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.

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R4030.31820 In the circumstances described in paragraph R403.10.479, the firm shall take steps to end any interests or relationships that are not permitted by this Code by the effective date of the merger or acquisition.

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4030.31820 AG1 It may not be reasonably possible to end an interest or relationship by the effective date of the merger or acquisition. This may be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

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The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

R4030.41921 As an exception to R4030.31820, if the interest or relationship cannot reasonably be ended by the effective date, the firm shall:

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- (a) Evaluate the threat that is ~~create~~caused by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the significance of the threat.

4030.41921 AG1 The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat to objectivity ~~may~~might depend upon factors such as:

Commented [SS50]: 290.34

- The nature and significance of the interest or relationship;
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and
- The length of time until the interest or relationship can reasonably be ~~ended~~terminated.

R4030.52022 If those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

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- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Part C1, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

4030.52022 AG1 Examples of transitional measures include:

Commented [SS52]: 290.35(c)

- Having a professional accountant review the audit or non-assurance work as appropriate;
- Having a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is equivalent to an engagement quality control review; or
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R4030.62123 The firm ~~might~~ay have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and ~~might~~ay be able to complete the remaining audit procedures within a short period of time. In such circumstances if those charged with

Commented [SS53]: 290.36

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

governance— request the firm to complete the audit while continuing with an interest or relationship identified in paragraph R4030.12479, the firm shall only do so if it:

- (a) Has evaluated the significance of the threat ~~create~~caused by such interest or relationship and discussed the evaluation with those charged with governance;
- (b) Complies with the requirements of paragraph R4030.54824 (a) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

R4030.72224 When addressing previous and current interests and relationships described in paragraph R4030.12479 the firm shall determine whether, even if all the requirements of paragraphs R4030.34820 to R4030.5213 could be met, the interests and relationships ~~create~~cause threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the auditor.

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R4030.82325 The professional accountant shall document:

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- (a) Any interests or relationships described in paragraph R4030.1479 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance, and
- (d) The reasons why the previous and current interests and relationships do not ~~create~~cause threats that would remain so significant that objectivity would be compromised.

SubSection 4041

Breach of an Independence Provision

Introduction

404.1 ~~A breach of a provision of this section mightay occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be that the audit engagement needs to be ended because of the breach.~~

Commented [SS56]: 290.39

Requirements and ~~Guidance~~Application Material

When a Firm Identifies a Breach

R4044.21 Notwithstanding any other provisions of ~~Part~~C1, if a firm concludes that a breach of any of those provisions has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:

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Commented [SS58]: 290.41

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

- (i) Comply with those requirements; and
- (ii) Consider reporting the breach to a professional body, regulator or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner;
 - (ii) Those with responsibility for the policies and procedures relating to independence;
 - (iii) Other relevant personnel in the firm, and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements who need to take appropriate action.
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report;
- (e) Depending on the significance of the breach, determine whether:
 - (i) To end the audit engagement; or
 - (ii) Whether it may be possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit report.

~~4041.21 G1 A breach of Part C1 might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be that the audit engagement needs to be ended because of the breach.~~

~~4041.21 AG12~~ When a breach of Part C1 is identified, the significance and impact of the breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach;
- The number and nature of any previous breaches with respect to the current audit engagement;
- Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the audit team or another individual for whom there are independence requirements;
- If the breach relates to a member of the audit team, the role of that individual;

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Commented [SS61]: 290.43

Commented [SS62]: 290.39

Commented [SS63]: 290.42

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

- If the breach was caused by the provision of a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion; and
- The extent of the self-interest, advocacy, intimidation or other threats ~~create~~caused by the breach.

4041.24 AG23 Depending upon the significance of the breach, examples of actions that the firm ~~might~~take~~consider~~ to satisfactorily address the breach include:

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- Removing the relevant ~~individual person~~ from the audit team;
- Using different ~~individuals people~~ to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary;
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements:
 - Engaging another firm to evaluate the results of the non-assurance service; or
 - Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R4041.32 If the firm determines that it cannot take action to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

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R4041.43 If the firm determines that it can take action to satisfactorily address the consequences of the breach, the firm shall discuss with those charged with governance, as soon as possible or in accordance with an alternative timing specified by those charged with governance for reporting less significant breaches:

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- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Communication with Those Charged with Governance – Breaches of an Independence Provision

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

R4041.54 The firm shall communicate in writing to those charged with governance

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(a) All matters discussed in accordance with paragraphs 4041.21 to 4041.43; and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach.

~~R4041.65 The communication shall include~~(b) A description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

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~~R4041.76~~ If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement in accordance with the provisions set out in paragraph R4041.32.

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Breaches Before the Previous Audit Report Was Issued

R4041.687 ~~If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of C1 in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period. If the breach occurred before the previous audit report was issued, the firm shall comply with the provisions of Part C1 that are relevant to the breach in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.~~

Commented [SS70]: 290.48

R4041.798 ~~The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports, and discuss the matter with those charged with governance. The firm shall consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, whether the firm should withdraw those audit reports, and discuss these matters with those charged with governance.~~

Commented [SS71]: 290.48

Documentation — Breaches of an Independence Provision

R4041.8109 The firm shall document:

Commented [SS72]: 290.49

- (a) The breach;
- (b) The action taken;
- (c) Key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional body, regulator or oversight authority.

R4041.9110 If the firm continues with the audit engagement, it shall also document the conclusion that, in the firm's professional judgment, objectivity has not been compromised and why the action

Commented [SS73]: 290.49

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

Section 510

Financial Relationships

Scope of this Section

510.1 A financial relationship between a professional accountant and an audit client ~~may~~might ~~create~~cause a threat to compliance with the fundamental principles. Sections 511 and 512 contain requirements and guidance application material on applying the conceptual framework to these financial relationships.

Commented [SS1]: New paragraph

Terms Used

510.2 Sections 511 and 512 contain references to the “materiality” to a financial interest, loan, or guarantee, or the “significance” of a business relationship. For the purpose of determining whether such an interest is material or significant to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [SS2]: 290.101

Requirements and Guidance Application Material

R510.3 ~~In relation to financial relationships,~~ A professional accountant shall apply the conceptual framework contained in Section ~~440.120~~ and paragraph R400.679- in relation to financial relationships.

Commented [SS3]: New paragraph

510.3 AG1 Financial relationships between a professional accountant and an audit client that ~~may~~might ~~create~~cause self-interest, intimidation or familiarity threats include:

Commented [SS4]: New paragraph

- Financial interests held in an audit client
- Loans, or guarantees of loans, made between a professional accountants and an audit client
- Other types of financial relationships.

Subsection 511

511 – Financial Interests

Introduction

511.1 Holding a financial interest in an audit client ~~may~~might ~~create~~cause a self-interest threat. The existence and significance of any threat depends on:

Commented [SS5]: 290.102

- (a) The ~~person~~individual holding the financial interest;
- (b) The materiality of the financial interest; and
- (c) Whether the financial interest is direct or indirect.

Subsection 511 contains requirements and guidance application material on applying the conceptual framework to financial interests.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

511.2 Financial interests ~~may~~ might be held directly. Financial interests ~~may~~ might also be held indirectly through an intermediary (for example, a collective investment vehicle, estate or trust). When a beneficial owner has control over the intermediary or the ability to influence investment decisions, this Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or the ability to influence investment decisions, this Code defines that financial interest to be indirect.

Commented [SS6]: 290.103

Requirements and ~~Guidance~~Application Material

~~R511.3 In relation to financial interests, a professional accountant shall apply the conceptual framework contained in Section 110120 and paragraph R400.79.~~

Financial Interests Held by the Firm, Network, Audit Team Members, and Other Partners and Employees of the Firm

R511.34 A direct financial interest or a material indirect financial interest in the audit client shall not be held by:

- (a) The firm or a network firm;
- (b) A member of the audit team, or any of that ~~individual~~ person's immediate family;
- (c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family;
- (d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of their immediate family.

Commented [SS7]: 290.104

Commented [SS8]: 290.104

Commented [SS9]: 290.108

Commented [SS10]: 290.110

511.345 ~~AG1~~ The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other members of the audit team, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

Commented [SS11]: 290.109

R511.45 As an exception to paragraph R511.34, an immediate family member identified in subparagraphs 511.34 (c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

Commented [SS12]: 290.111

- (a) The family member received the financial interest because of employment rights (for example, through pension or share option plans);
- (b) The family member disposes of the financial interest as soon as practicable (for example, in the case of a stock option, when the family member obtains the right to exercise the option); and
- (c) When necessary, the firm applies safeguards to eliminate any threat to independence or reduce it to an acceptable level.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

R511.56 When an entity has a controlling interest in an audit client and the audit client is material to the entity, neither the firm, nor a network firm, nor a member of the audit team, nor a member of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Commented [EH13]: 290.106

Financial Interests Held as Trustee

R511.67 Paragraph R511.34 applies to a financial interest held as trustee as it does to other financial interests, unless:

Commented [SS14]: 290.114

- (a) None of the following is a beneficiary of the trust: the trustee, an immediate family member of the trustee, the firm or a network firm;
- (b) The interest in the audit client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the audit client: the trustee, an immediate family member of the trustee, the firm or a network firm.

Financial Interests in Common with the Audit Client

R511.78 (a) A firm, or a network firm, or a member of the audit team, or a member of that individual's immediate family shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:

Commented [SS15]: 290.112

(ia) The financial interests are immaterial to the firm, the network firm, the member of the audit team, that individual's immediate family and the audit client, as the case may be; ~~or and~~

(iib) The audit client cannot exercise significant influence over the entity.

~~R511.(b) B9 An individual shall not be a member of the audit team while holding a material financial interest in an entity in which the audit client also has a material financial interest, if the audit client can exercise significant influence over the entity. Before efore anthe individual can may become a member of the audit team, the individual or that individual's immediate family member shall -shall either:~~

Commented [SS16]: 290.112

Commented [SS17]: 290.112

(ia) Dispose of the interest; or

(iib) Dispose of enough of the interest so that the remaining interest is no longer material.

Unintended Acquisition of Interests

R511.840 If a firm, a network firm or a partner or employee of the firm or a network firm, or a member of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client by way of an inheritance, gift, as a result of a merger or in

Commented [SS18]: 290.116

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

similar circumstances and the interest would not otherwise be permitted to be held under this section then:

- (a) If the interest is received by the firm or a network firm, or a member of the audit team or a member of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) (i) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of that individual, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, and
- (ii) Pending the disposal of the financial interest, the firm shall determine whether safeguards are necessary.

Financial Interests – Other circumstances

R511.944 A firm shall apply the conceptual framework contained in Section 440120 and paragraph R400.9-67 in the following circumstances related to financial interests:

- (a) If a member of the audit team knows that a close family member has a direct or material indirect financial interest in the audit client; (Ref: Para. 511.944 AG1).
- (b) If the retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.
- (c) If a member of the audit team, or a member of that individual's immediate family, or the firm or a network firm, has a financial interest in an entity and a director or officer or controlling owner of the audit client is also known to have a financial interest in the same at-entity. (Ref: Para. 511.944 AG2).
- (d) If a member of the audit team knows that a financial interest in the audit client is held by other individuals, such as:
 - (i) Partners and professional employees of the firm or network firm, in addition to those who are specifically not permitted to hold such financial interests by paragraph R511.34, or their immediate family members; or
 - (ii) Individuals with a close personal relationship with a member of the audit team. (Ref: Para 511.944 AG3).

511.944 AG1 A self-interest threat ~~may~~^{might} be ~~create~~^{cause} if a member of the audit team has a close family member who the audit team member knows has a direct or material indirect financial interest in the audit client. The significance of any threat ~~create~~^{cause} depends on factors such as:

- The nature of the relationship between the member of the audit team and the close family member; and

Commented [SS19]: 290.105

Commented [SS20]: 290.107

Commented [SS21]: 290.113

Commented [SS22]: 290.115

Commented [SS23]: 290.105

The Conceptual Framework contained in Section 1240 and Paragraph R400.629 applies in all circumstances.

- The materiality of the financial interest to the close family member.

Examples of safeguards include:

- *The close family member disposing, as soon as practicable, of all of the financial interest or disposing of enough of an indirect financial interest so that the remaining interest is no longer material;*
- *Having a professional accountant review the work of the member of the audit team; or*
- *Removing the individual from the audit team.*

Commented [SS24]: Examples of safeguards

511.944 AG2 Self-interest, familiarity, or intimidation threats *may* be *create* caused if a member of the audit team, or an immediate family member of that individual, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity. The existence and significance of any threat *may* depend upon factors such as:

Commented [SS25]: 290.113

- The role of the individual on the audit team;
- Whether ownership of the entity is closely or widely held;
- Whether the interest allows the investor to control or significantly influence the entity; and
- The materiality of the financial interest.

Examples of safeguards include:

- *Removing the member of the audit team with the financial interest from the audit team; or*
- *Having a professional accountant review the work of the member of the audit team.*

Commented [SS26]: Examples of safeguards

511.944 AG3 Whether the interests described in paragraph R511.9 44 (d) *create* cause a self-interest threat *may* depend on factors such as:

Commented [SS27]: 290.115

- The firm's organizational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the audit team.

Examples of safeguards include:

- *Removing the member of the audit team with the personal relationship from the audit team;*
- *Excluding the member of the audit team from any significant decision-making concerning the audit engagement; or*
- *Having a professional accountant review the work of the member of the audit team.*

Commented [SS28]: Examples of safeguards

The Conceptual Framework contained in Section 1240 and Paragraph R400.629 applies in all circumstances.

Subsection 512

Loans and Guarantees

Introduction

512.1 A loan or a guarantee of a loan between a professional accountant and an audit client ~~may~~^{might} ~~create~~^{cause} self-interest or other threats. Subsection 512 contains requirements and ~~guidance~~^{application material} on applying the conceptual framework to loans and guarantees.

Commented [SS29]: New paragraph

Requirements and ~~Guidance~~^{Application Material}

~~R512.2 In relation to loans and guarantees, a professional accountant shall apply the conceptual framework contained in Section 110120 and paragraph R400.79.~~

Commented [SS30]: New paragraph

Loans and Guarantees with a Bank or Similar Institution

R512.23 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Commented [SS31]: 290.117

512.23 AG1 If a loan to a firm or network firm from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it ~~may~~^{might} be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by a professional accountant from a network firm that is neither involved with the audit nor received the loan.

Commented [SS32]: 290.118

512.23 AG2 A loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution to a member of the audit team, or a member of that individual's immediate family, ~~may~~^{does} not ~~create~~^{cause} a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include: home mortgages; bank overdrafts; car loans; and credit card balances.

Commented [SS33]: 290.119

Loans and guarantees with a Client ~~that~~^{is} Not a Bank or Similar Institution

R512.34 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an audit client that is not a bank or similar institution, unless the loan or guarantee is immaterial to ~~both~~:

Commented [SS34]: 290.120

- (a) The firm, ~~the network firm~~, or the member of the audit team and the immediate family member receiving the loan, ~~as the case may be~~; and
- (b) The client.

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

R512.45 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family, shall not make or guarantee a loan to, an audit client unless the loan or guarantee is immaterial to both:

Commented [SS35]: 290.121

- (a) The firm, the network firm or the member of the audit team and the immediate family member making the loan or guarantee, as the case may be; and
- (b) The client.

Deposits or Brokerage Accounts

R512.56 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family, shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Commented [SS36]: 290.122

Section 520

Other Relationships

Scope of this Section

520.1 In addition to financial relationships, other relationships between a professional accountant and an audit client may cause self-interest, intimidation or familiarity threats to compliance with the fundamental principles. Section 520 contains requirements and guidance application material on applying the conceptual framework to the following other relationships.

Commented [SS37]: New paragraph

- Business relationships;
- Family and personal relationships; and
- Relationships involving:
 - Former members of the audit team or former partners of the firm;
 - Firm personnel staff who are temporarily assigned to assist an audit client;
 - Members of the audit team who have recently served as a director, officer or employee of the audit client; or
 - Partners or employees of the firm who serve as a director or officer of the audit client.

Requirements and Guidance Application Material

R520.2 In relation to other relationships, A professional accountant shall apply the conceptual framework contained in Section 440120 and paragraph R400.679, in relation to other relationships.

Commented [SS38]: New paragraph

The Conceptual Framework contained in Section 1240 and Paragraph R400.679 applies in all circumstances.

520.2 ~~AG1~~ — ~~Relationships between a professional accountant and an audit client that may create self-interest, intimidation or familiarity threats include:~~

~~Business relationships (see Subsection 521);~~

~~Family and personal relationships (see Subsection 5XX⁴); and~~

~~Relationships involving:~~

~~Former members of the audit team or former partners of the firm (see Subsection 5XX);~~

~~Firm staff who are temporarily assigned to assist an audit client (see Subsection 5XX);~~

~~Members of the audit team who have recently served as a director, officer or employee of the audit client (see Subsection 5XX); or~~

~~Partners or employees of the firm who serve as a director or officer of the audit client (see Subsection 5XX).~~

~~Subsections 521 to 526 contain requirements and application material related to specific types of relationships that may create threats to compliance with the fundamental principles. In addition, other types of relationships may also create such threats.~~

Commented [SS39]: New paragraph

Subsection 521

Business Relationships

Introduction

521.1 A close business relationship between a professional accountant and an audit client ~~may create~~ self-interest or intimidation threats. Subsection 521 contains requirements and ~~guidance~~ application material on applying the conceptual framework to these business relationships.

Commented [SS40]: 290.123

Requirements and ~~Guidance~~ Application Material

~~R521.2~~ — ~~In relation to business relationships, a professional accountant shall apply the conceptual framework contained in Section 110120 and paragraph R400.79.~~

Commented [SS41]: New paragraph

Firm or Audit Team Member Relationships

~~R521.23~~ The firm, a network firm or a member of the audit team shall not have a close business relationship with an audit client or its management unless the financial interest is immaterial and the business relationship is insignificant to the firm, ~~the~~ the network firm or the ~~member of the audit team member~~, as the case may be, and the client or its management.

Commented [SS42]: 290.123

~~R521.34~~ If an immediate family member of a member of the audit team has a close business relationship with an audit client or its management, the firm shall apply the conceptual framework contained in Section ~~110120~~ and paragraph R400.679.

Commented [SS43]: 290.123, last paragraph

⁴ — Paragraph reference numbers have not yet been determined for this and the following similar references:

The Conceptual Framework contained in Section 1240 and Paragraph R400.629 applies in all circumstances.

Common Interests in Closely-Held Entities

R521.45 The firm, a network firm, a member of the audit 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 an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

Commented [SS44]: 290.124

- (a) The business relationship is insignificant to the firm, the network firm, or the member of the audit team and the immediate family member, as the case may be, and the 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.

521.45 AG1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

Commented [SS45]: 290.123

- Having a financial interest in a joint venture with either the client or a controlling owner, director, 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 the network firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm or the network firm distributes or markets the client's products or services, or the client distributes or markets the firm's or the network firm's products or services.

Buying Goods or Services

521.56 AG1 The purchase of goods and services from an audit client by a firm, a network firm, a member of the audit team, or a member of that individual's immediate family 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 and magnitude that they create a self-interest threat.

Commented [SS46]: 290.125

Examples of safeguards include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the audit team.

Commented [SS47]: Examples of safeguards