

## Agenda Item 2-C

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 scope<sup>1</sup> 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.

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<sup>1</sup> 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.

The Conceptual Framework contained in Section 120 applies in all circumstances

(CLEAN)

## 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. This Code contains requirements and application material for professional accountants regarding matters that are integral to acting in the public interest, namely:

- (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

100.2 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 A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.

**R100.4** In acting in the public interest a professional accountant shall comply with this Code. There might be circumstances when a professional accountant is prohibited from complying with certain parts of this Code by law or regulation. In that event, the professional accountant shall comply with all other parts of this Code.

**R100.5** A professional accountant who identifies a breach of this Code shall:

- (a) Evaluate the significance of the breach and its impact on the professional accountant's ability to comply with the fundamental principles;
- (b) Take whatever actions might 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 have been affected by it, a professional body or a regulator; and
- (d) Address a breach of a requirement in C1 and C2 in accordance with the provisions contained in Part C.

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## Section 110

### The Fundamental Principles

#### Introduction

110.1 There are five fundamental principles of ethics for professional accountants:

Commented [SS6]: 100.5

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to make professional or business judgments without bias, conflict of interest or undue influence of others.
- (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.
- (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.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know might discredit the profession.

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

#### Subsection 111

##### Integrity

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

Commented [SS7]: 110.1

111.1 A1 Integrity also implies fair dealing and truthfulness.

Commented [SS8]: 110.1

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 [SS9]: 110.2

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- (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 R111.2, the professional accountant shall:

- (a) Take steps to be disassociated from that information; or
- (b) Provide a modified report in respect of the information.

**Commented [SS10]:** 110.2, 110.3

## Subsection 112

### Objectivity

**R112.1** A professional accountant shall comply with the fundamental principle of objectivity which requires a professional accountant to make professional or business judgments without bias, conflict of interest or undue influence of others. **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 [SS11]:** 120.1, 280.1

**Commented [SS12]:** 120.2

**112.2 A1** 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 be created by a family or close personal or business relationship.

**Commented [SS13]:** 120.2, 280.1, 280.3

*Examples of safeguards include:*

- *Supervisory procedures;*
- *Discussing the issue:*
  - *With higher levels of management within the firm; or*
  - *With those charged with governance of the client;*
- *Withdrawing from the activity or the engagement team; or*
- *Ending the financial or business relationship causing the threat.*

**Commented [EH14]:** Examples of safeguards

**Commented [SS15]:** 280.4

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

**Commented [SS16]:** 280.2

**112.3 A1** 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 [SS17]:** 280.2

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112.3 A2 C1 and C2 contain independence requirements and application material for professional accountants in public practice.

Commented [SS18]: 280.2

### Subsection 113

#### Professional Competence and Due Care

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

Commented [SS19]: 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

Act diligently and in accordance with applicable technical and professional standards. 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 [SS20]: 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 [SS21]: 130.6

113.3 A1 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 be divided into two separate phases:

Commented [SS22]: 130.2

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

113.3 A2 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 [SS23]: 130.3

113.3 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

Commented [SS24]: 130.4

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## Subsection 114

### Confidentiality

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

**Commented [SS25]:** 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.

**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;
- (f) Not use or disclose any confidential information either acquired or received as a result of a professional or business relationship after the business or personal relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the professional accountant's control, and individuals from whom advice and assistance is obtained, respect the professional accountant's duty of confidentiality.

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**Commented [SS27]:** 140.4

**Commented [SS28]:** 140.3

**Commented [SS29]:** 140.1(a)

**Commented [SS30]:** 140.1(b)

**Commented [SS31]:** 140.6

**Commented [SS32]:** 140.5

**114.2 A1** 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 [SS33]:** 140.6

**114.2 A2** The following are circumstances where professional accountants might be required to disclose confidential information or when such disclosure might be appropriate:

**Commented [SS34]:** 140.7

- (a) Disclosure is permitted by law and is authorized by the client or the employer;

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- (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 A3 In deciding whether to disclose confidential information, factors to consider include:

Commented [SS35]: 140.8

- Whether the interests of all parties, including third parties whose interests might 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

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 discredit the profession.

Commented [SS36]: 150.1

115.1 A1 Actions that might 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.

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#### 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 [SS38]: 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 [SS39]: 250.2

## Section 120

### The Conceptual Framework

**R120.1** Paragraphs 120.1 to 120.2 A8 have been removed from this text as they are under review by the Safeguards Task Force.

Commented [SS40]: 100.2

The Text from 100.25 set out below will be removed from Part A and included in both Part B and Part C. Additional material from extant Parts B and C will be included as appropriate.

#### Those Charged with Governance

**RXXX.X<sup>2</sup>** When communicating with those charged with governance, the professional accountant shall determine the appropriate individual(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 [SS41]: 100.25

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

Commented [SS42]: 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 also be necessary to ensure they are adequately informed.

Commented [SS43]: 100.25

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



The Conceptual Framework contained in Section 120 applies in all circumstances

## 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 120 applies to professional accountants in public practice. This Part does not describe all of the circumstances and relationships that could be encountered by professional accountants<sup>3</sup> that create or might create threats to compliance with the fundamental principles. Therefore, professional accountants are encouraged to be alert for such circumstances and relationships.

Commented [SS44]: 200.1

##### Requirements and Application Material

**R300.2** A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework contained in Section 120 in relation to threats to those fundamental principles.

Commented [SS45]: 100.5 and 100.7 to 100.9

##### Conceptual Framework – Threats and Safeguards

##### Threats

300.2 A1 Paragraphs 300.2 A1 to 300.2 A14 have been removed from this text as they are under review by the Safeguards Task Force.

##### Those Charged with Governance

**R300.3** When communicating with those charged with governance, the professional accountant shall determine the appropriate individual(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 [SS46]: 100.25, 290.28

300.3 A1 In determining with whom to communicate, the professional accountant might consider:

Commented [SS47]: 100.25

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

300.3 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 also be necessary to ensure they are adequately informed.

Commented [SS48]: 100.25

<sup>3</sup> In Part C and in C1 and C2 "professional accountant" refers to professional accountants in public practice and firms of professional accountants in practice.

The Conceptual Framework contained in Section 120 applies in all circumstances

## Section 310

### Conflicts of Interest

#### Scope of this Section

- 310.1 Section 310 contains requirements and application material in relation to applying the conceptual framework to conflicts of interest.
- 310.2 When performing professional services, professional accountants might face circumstances that cause a conflict of interest. A conflict of interest creates a threat to objectivity and might create threats to the other fundamental principles.
- 310.3 A conflict of interest might arise when:
- The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
  - 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 C1 and C2, as appropriate.

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Commented [SS51]: 220.1

Commented [SS52]: 220.1

#### Requirements and Application Material

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

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Commented [SS54]: 220.6

#### Conflict Identification

- 310.6 A1 The steps that a professional accountant might take to identify circumstances that might create a conflict of interest before accepting a new client relationship, engagement, or business relationship, include identifying:
- Relevant interests;
  - Relationships between the parties involved; and
  - The service and its implication for relevant parties.
- 310.6 A2 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 might be relevant to the transaction.

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Commented [SS56]: 220.2

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- 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.

310.6 A3 Professional accountants are assisted by having an effective conflict identification process in place. This might include matters identified by external parties, for example clients or potential clients. A conflict identification process might assist a professional accountant to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the professional accountant being able to apply safeguards to eliminate the threat.

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 A4 More information on client acceptance is contained in Section 320, *Professional Appointment*.

#### *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.

310.7 A1 The nature of the services and the interests and relationships might change during the

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Commented [SS58]: New paragraph

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Commented [SS60]: 220.6

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engagement. This is often true in a situation that might become adversarial, although there is no dispute when the engagement begins. This requires the professional accountant to remain alert to changes to identify circumstances that might create a conflict of interest.

#### Network Firms

**R310.8** 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 might exist or might arise due to interests and relationships of a network firm.

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310.8 A1 Reasonable steps to identify interests and relationships involving a network firm will depend on factors such as:

Commented [SS62]: 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** A professional accountant shall apply the conceptual framework contained in Section 120 in relation to a conflict of interest.

Commented [SS63]: New paragraph

310.9 A1 Factors that might be considered when evaluating a threat created by a conflict of interest include the significance of:

Commented [SS64]: 220.9

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

310.9 A2 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.

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310.9 A3 Examples of safeguards include:

Commented [SS66]: Examples of safeguards

- 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 might 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 personnel and partners of the firm.

Commented [SS67]: 220.10

The Conceptual Framework contained in Section 120 applies in all circumstances

- *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 [SS68]: 220.11

310.10 A1 It is generally necessary:

Commented [SS69]: 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 consent of the affected clients to perform the professional services.

Disclosure and consent might take different forms, for example:

- General consent might 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 might 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 might include a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might 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 A2 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

Commented [SS70]: 220.11

The Conceptual Framework contained in Section 120 applies in all circumstances

consider include the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

310.10 A3 If disclosure or consent is not in writing, the professional accountant is encouraged to document:

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

Commented [SS71]: 220.13

R310.11 If a professional accountant has determined that explicit consent is necessary in accordance with R310.10 and the client has refused, the professional accountant shall either:

Commented [SS72]: 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.

#### 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 [SS73]: 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 [SS74]: 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 [SS75]: 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.

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**R310.14** The professional accountant shall document:

**Commented [EH76]:** 220.14

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

## Section 320

### Professional Appointment

#### Scope of this Section

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

**Commented [SS77]:** New paragraph

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

**Commented [SS78]:** 210.5, .9

#### Requirements and Application Material

**R320.3** A professional accountant shall apply the conceptual framework contained in Section 120 in relation to a professional appointment.

**Commented [SS79]:** 210.01,.06

#### Client Acceptance and Continuance

320.3 A1 In some circumstances, acceptance of a new client relationship might 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 [SS80]:** 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;

320.3 A2 It is recommended that a professional accountant periodically review acceptance decisions for recurring client engagements.

**Commented [SS81]:** 210.5

#### Engagement Acceptance

320.3 A3 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 [SS82]:** 210.6

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*Examples of safeguards include:*

- *Acquiring an appropriate understanding of:*
  - *The nature of the client's business;*
  - *The complexity of its operations;*
  - *The requirements of the engagement; and*
  - *The purpose, nature and scope of the work to be performed.*
- *Acquiring knowledge of relevant industries or subject matters.*
- *Possessing or obtaining experience with relevant regulatory or reporting requirements.*
- *Assigning sufficient engagement personnel with the necessary competencies.*
- *Agreeing on a realistic time frame for the performance of the engagement.*
- *Complying with quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.*
- *Using experts where necessary.*

**Commented [SS83]:** Examples of safeguards

**Commented [SS84]:** 210.7

#### *Changes in Professional Appointment*

**R320.4** 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 [SS85]:** 210.9

**Commented [SS86]:** 210.12

320.4 A1 There might be reasons, professional or otherwise, for not accepting an engagement. Such reasons might 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 might be a threat to professional competence and due care if a professional accountant accepts the engagement before knowing all the relevant facts.

**Commented [SS87]:** 210.9

320.4 A2 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 might result, for example, from incomplete information.

**Commented [SS88]:** 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*

**Commented [SS89]:** Examples of safeguards

**Commented [SS90]:** 210.11



The Conceptual Framework contained in Section 120 applies in all circumstances

*the opportunity to inquire whether there are any reasons why the appointment should not be accepted.*

- *Asking the existing accountant to provide any known information that, in the existing accountant's opinion, the proposed professional accountant needs to be aware of before deciding whether to accept the engagement.*
- *Obtaining information from other sources such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.*

Commented [SS91]: 210.11

320.4 A3 Depending on the nature of the engagement, direct communication with the existing accountant might be needed to establish the circumstances regarding a proposed change in appointment. Such communication might 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 might not fully reflect the facts. It might indicate disagreements with the existing accountant that might influence the decision to accept the appointment.

Commented [SS92]: 210.10

320.4 A4 A professional accountant will generally need the client's permission, preferably in writing, to approach the existing professional accountant.

Commented [SS93]: 210.14

**R320.5** 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 [SS94]: 210.14

**R320.6** When an existing professional accountant is asked to respond to a communication from a proposed accountant, the existing professional accountant shall:

Commented [SS95]: 210.14

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

320.6 A1 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 [SS96]: 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 might vary by jurisdiction.

320.6 A2 Circumstances where a professional accountant might be required to disclose confidential information, or where disclosure might be appropriate, are contained in paragraph 114.2 A2 and 114.2 A3 of this Code.

Commented [SS97]: 210.13

The Conceptual Framework contained in Section 120 applies in all circumstances

#### Second Opinions

**R320.7** 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 [SS98]: 230.3

320.7 A1 Professional accountants 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 [SS99]: 230.1

320.7 A2 Providing a second opinion to an entity that is not an existing client might create threats to compliance with the fundamental principles. For example, there 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 [SS100]: 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

**R320.8** When a professional accountant intends to use the work of an expert, the professional accountant shall determine whether the use is warranted.

Commented [SS101]: 210.8

320.8 A1 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 might be gained from prior association with the expert or from consulting others.

Commented [SS102]: 210.8

## Section 330

### Fees and Other Types of Remuneration

#### Scope of this Section

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

Commented [SS103]: New paragraph

330.2 The level and nature of fee and other remuneration arrangements might create threats to each of the fundamental principles.

Commented [SS104]: New paragraph

The Conceptual Framework contained in Section 120 applies in all circumstances

### Requirements and Application Material

**R330.3** A professional accountant shall apply the conceptual framework contained in Section 120 in relation to fees and remuneration,

Commented [SS105]: 240.1,2

#### Level of Fees

330.3 A1 The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.

Commented [SS106]: 240.1 240.2

330.3 A2 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 might create a threat to professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

Commented [SS107]: 240.01

#### Examples of safeguards include:

Commented [SS108]: 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 personnel to the task.

#### Contingent Fees

330.3 A3 Contingent fees are widely used for some non-assurance services. However, contingent fees might 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 [SS109]: 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 [SS110]: Examples of safeguards

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

Commented [SS111]: 240.4

The Conceptual Framework contained in Section 120 applies in all circumstances

330.3 A4 Contingent fees for non-assurance services provided to audit clients and other assurance clients are contained in C1 and C2 of this Code.

Commented [SS112]: New paragraph

#### Referral Fees or Commissions

330.3 A5 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 [SS113]: 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.

330.3 A6 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 [SS114]: 240.6

330.3 A7 Examples of safeguards include:

Commented [SS115]: 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.

330.3 A8 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 R330.3.

Commented [SS116]: 240.8

## Section 340

### Gifts and Hospitality

#### Scope of this Section

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

Commented [SS117]: New paragraph

The Conceptual Framework contained in Section 120 applies in all circumstances

- 340.2 An offer of gifts or hospitality from a client might 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 [SS118]: 260.1

#### Requirement and Application Material

- R340.3** A professional accountant shall apply the conceptual framework contained in Section 120 in relation to gifts and hospitality.

- 340.3 A1 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 [SS119]: 260.2

### Section 350

#### Custody of Client Assets

##### Scope of this Section

- 350.1 Section 350 contains requirements and application material on applying the conceptual framework to assuming custody of client money or other assets.
- 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 [SS120]: New paragraph

Commented [SS121]: 270.2

##### Requirements and Application Material

- R350.3** A professional accountant shall apply the conceptual framework contained in Section 120 in relation to assuming custody of client money or other assets.

- 350.3 A1 A professional accountant 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 [SS122]: 270.2

- R350.4** 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 [SS123]: 270.1

- R350.5** As part of client and engagement acceptance procedures in relation to assuming custody of client money or assets, a professional accountant shall:

Commented [SS124]: 270.3

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

- 350.5 A1 Inquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such situations, a threat to

Commented [SS125]: 270.3

The Conceptual Framework contained in Section 120 applies in all circumstances

compliance with the fundamental principles would be created and the professional accountant may consider seeking legal advice.

**R350.6** A professional accountant entrusted with money or other assets belonging to others shall:

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

**Commented [SS126]:** 270.2

The Conceptual Framework contained in Section 120 applies in all circumstances

## Draft restructured Code Tranche I

### C1 INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### Section 400

#### Application of Conceptual Framework to Independence for Audits and Reviews

##### Scope of C1

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 teams<sup>4</sup>, firms and network firms be independent of audit clients<sup>5</sup>.*

Commented [SS127]: 290.4

400.2 C1 contains requirements and application material for professional accountants in public practice on maintaining independence when performing audit engagements<sup>6</sup>. These engagements are assurance engagements in which a professional accountant<sup>7</sup> expresses a conclusion on financial statements. Such engagements involve reporting on a complete set of financial statements or on a single financial statement.

Commented [SS128]: 290.1

400.3 C1 describes circumstances and relationships that cause or might cause threats to independence. It describes the potential threats and safeguards that 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 might 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 300.2 A8 to A14 can be applied to eliminate the threats to independence or reduce them to an acceptable level.

Commented [SS129]: 290.5,8,9,100

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

Commented [SS130]: 290.1 last sentence

400.5 An audit report<sup>8</sup> might include a restriction on use and distribution. If it does, the independence requirements in C1 may be modified as provided in Section 499, 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 [SS131]: 290.2

<sup>4</sup> In C1, "audit team" includes "review team".

<sup>5</sup> In C1, "audit client" includes "review client" and related entities of the audit client – see Glossary for more detail.

<sup>6</sup> In C1, "audit engagement" includes "review engagement".

<sup>7</sup> In C1, "professional accountant" refers to professional accountants in public practice and firms of professional accountants in practice.

<sup>8</sup> In C1, "audit report" includes "review engagement report"

The Conceptual Framework contained in Section 120 applies in all circumstances

## Requirements and Application Material

**R400.6** A professional accountant shall apply the conceptual framework contained in Section 120 when assessing independence in relation to an audit engagement.

Commented [SS132]: 290.3

Commented [SS133]: 290.27

Commented [SS134]: New paragraph, relating to 290.5

**R400.7** 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 [SS135]: 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 [SS136]: 290.10

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

Commented [SS137]: 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 ended; 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 [SS138]: 290.10

**R400.8** 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 [SS139]: 290.27

## Engagement Period

**R400.9** A professional accountant performing an audit engagement shall be independent of the audit client during both:

Commented [SS140]: 290.4 & 30

(a) The engagement period; and

(b) The period covered by the financial statements.

**R400.10** 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 caused by:

Commented [SS141]: 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.



The Conceptual Framework contained in Section 120 applies in all circumstances

**R400.11** 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 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 [SS142]:** 290.32

400.11 A1 Examples of safeguards include:

**Commented [SS143]:** 290.32

- Not including individuals 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.

*Establishing Policies and Procedures for Compliance with this Code*

**R400.12** A firm shall establish, implement and maintain policies and procedures, appropriately documented and communicated within the firm, to:

**Commented [SS144]:** 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.

400.12 A1 Individuals who are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code might include:

**Commented [SS145]:** 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.

400.12 A2 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 [SS146]:** 290.12

The Conceptual Framework contained in Section 120 applies in all circumstances

400.12 A3 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 [SS147]: New paragraph

#### *Those Charged with Governance*

**R400.13** A professional accountant shall comply with paragraph R300.3 when communicating with those charged with governance.

400.13 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 [SS148]: 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
- (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 cause 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 [SS149]: 290.14

##### **Requirements and Application Material**

**R401.2** A network firm shall be independent of the audit clients of the other firms within the network unless otherwise stated in this Code.

Commented [SS150]: 290.13

**R401.3** When associated with a larger structure of other firms and entities, a firm shall:

Commented [SS151]: 290.15

- (a) Use professional judgment to determine whether a network is created by such a larger structure;

The Conceptual Framework contained in Section 120 applies in all circumstances

(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.

401.3 A1 The independence requirements in 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 [SS152]: 290.13

401.3 A2 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.

Commented [SS153]: 290.16

401.3 A3 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.

Commented [SS154]: 290.17

401.3 A4 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.

Commented [SS155]: 290.18

401.3 A5 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.

Commented [SS156]: 290.19

401.3 A6 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 [SS157]: 290.20

401.3 A7 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 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 might be created that the firm belongs to a network.

Commented [SS158]: 290.21

The Conceptual Framework contained in Section 120 applies in all circumstances

401.3 A8 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources it is a network. Professional resources include:

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

Commented [SS159]: 290.23

401.3 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- 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 or information, such as where personnel 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.

Commented [SS160]: 290.24

R401.4 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 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 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 [SS161]: 290.22

## Subsection 402

### General Documentation

#### Introduction

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

- (a) Facilitating a logical approach to the consistent application of professional standards to engagements;
- (b) Providing evidence of the nature and extent of work in applying those standards;

Commented [SS162]: New introductory paragraph

The Conceptual Framework contained in Section 120 applies in all circumstances

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

#### Requirements and Application Material

**R402.1** A professional accountant shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

Commented [SS163]: 290.29

- (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.

402.1 A1 Paragraph R402.1 contains 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 [SS164]: 290.29

### Subsection 403

#### Merger and acquisitions

##### Introduction

403.1 An entity might 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 caused by previous or current interests or relationships between a firm and such a related entity.

Commented [SS165]: 290.33

#### Requirements and Application Material

**R403.2** In the circumstance described in paragraph 403.1 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.

Commented [SS166]: 290.33

**R403.3** In the circumstances described in paragraph R403.1, 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.

Commented [SS167]: 290.34

The Conceptual Framework contained in Section 120 applies in all circumstances

403.3 A1 It might not be reasonably possible to end an interest or relationship by the effective date of the merger or acquisition. This might 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.

Commented [SS168]: 290.34

R403.4 As an exception to R403.3, if the interest or relationship cannot reasonably be ended by the effective date, the firm shall:

Commented [SS169]: 290.34

- (i) Evaluate the threat that is caused by the interest or relationship; and
- (ii) 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.

403.4 A1 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 might depend upon factors such as:

Commented [SS170]: 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

R403.5 If those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

Commented [SS171]: 290.35

- (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 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.

403.5 A1 Examples of transitional measures include:

Commented [SS172]: 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.

The Conceptual Framework contained in Section 120 applies in all circumstances

- R403.6** The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph R403.1, the firm shall only do so if it:
- (a) Has evaluated the significance of the threat caused by such interest or relationship and discussed the evaluation with those charged with governance;
  - (b) Complies with the requirements of paragraph R403.5 (a) to (c); and
  - (c) Ceases to be the auditor no later than the date that the audit report is issued.
- R403.7** When addressing previous and current interests and relationships described in paragraph R403.1 the firm shall determine whether, even if all the requirements of paragraphs R403.3 to R403.5 could be met, the interests and relationships cause threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the auditor.
- R403.8** The professional accountant shall document:
- (a) Any interests or relationships described in paragraph R403.1 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 cause threats that would remain so significant that objectivity would be compromised.

Commented [SS173]: 290.36

Commented [SS174]: 290.37

Commented [SS175]: 290.38

## Subsection 404

### Breach of an Independence Provision

#### Introduction

- 404.1 A breach of a provision of this section 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.

Commented [SS176]: 290.39

#### Requirements and Application Material

##### When a Firm Identifies a Breach

- R404.2** Notwithstanding any other provisions of 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;

Commented [SS177]: 290.40

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- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
- Comply with those requirements; and
  - 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:
- The engagement partner;
  - Those with responsibility for the policies and procedures relating to independence;
  - Other relevant personnel in the firm, and, where appropriate, the network; and
  - 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:
- To end the audit engagement; or
  - Whether it might 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.

Commented [SS178]: 290.41

Commented [SS179]: 290.42

Commented [SS180]: 290.42

Commented [SS181]: 290.43

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.

404.2 A1 When a breach of 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:

Commented [SS182]: 290.42

- 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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- 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 caused by the breach.

404.2 A2 Depending upon the significance of the breach, examples of actions that the firm might consider to satisfactorily address the breach include:

Commented [SS183]: 290.44

- Removing the relevant individual from the audit team;
- Using different individuals 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.

R404.3 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.

Commented [SS184]: 290.45

R404.4 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:

Commented [SS185]: 290.46

- (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 120 applies in all circumstances

**R404.5** The firm shall communicate in writing to those charged with governance

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(a) All matters discussed in accordance with paragraphs 404.2 to 404.4; 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.

(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.

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 R404.3.

Commented [SS187]: 290.47

*Breaches Before the Previous Audit Report Was Issued*

**R404.6** 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.

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**R404.7** 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.

Commented [SS189]: 290.48

*Documentation – Breaches of an Independence Provision*

**R404.8** The firm shall document:

Commented [SS190]: 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.

**R404.9** 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 taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

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The Conceptual Framework contained in Section 120 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 might cause a threat to compliance with the fundamental principles. Sections 511 and 512 contain requirements and application material on applying the conceptual framework to these financial relationships.
- 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 [SS192]:** New paragraph

**Commented [SS193]:** 290.101

#### Requirements and Application Material

- R510.3** A professional accountant shall apply the conceptual framework contained in Section 120 and paragraph R400.6 in relation to financial relationships.
- 510.3 A1 Financial relationships between a professional accountant and an audit client that might cause self-interest, intimidation or familiarity threats include:
- 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.

**Commented [SS194]:** New paragraph

**Commented [SS195]:** New paragraph

## Subsection 511

### 511 – Financial Interests

#### Introduction

- 511.1 Holding a financial interest in an audit client might cause a self-interest threat. The existence and significance of any threat depends on:
- (a) The 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 application material on applying the conceptual framework to financial interests.
- 511.2 Financial interests might be held directly. Financial interests 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

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**Commented [SS197]:** 290.103

The Conceptual Framework contained in Section 120 applies in all circumstances

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.

#### Requirements and Application Material

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

**R511.3** 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'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.

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Commented [SS199]: 290.104

Commented [SS200]: 290.108

Commented [SS201]: 290.110

511.3 A1 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.

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**R511.4** As an exception to paragraph R511.3, an immediate family member identified in subparagraphs 511.3 (c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

Commented [SS203]: 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.

**R511.5** 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.

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The Conceptual Framework contained in Section 120 applies in all circumstances

*Financial Interests Held as Trustee*

**R511.6** Paragraph R511.3 applies to a financial interest held as trustee as it does to other financial interests, unless:

Commented [SS205]: 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*

**R511.7** (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 [SS206]: 290.112

- (i) 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
- (ii) The audit client cannot exercise significant influence over the entity.

(b) Before an individual can become a member of the audit team, the individual or that individual's immediate family member shall either:

Commented [SS207]: 290.112

- (i) Dispose of the interest; or
- (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

*Unintended Acquisition of Interests*

**R511.8** 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 similar circumstances and the interest would not otherwise be permitted to be held under this section then:

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- (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

The Conceptual Framework contained in Section 120 applies in all circumstances

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*

**R511.9** A firm shall apply the conceptual framework contained in Section 120 and paragraph R400.6 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. 511.9 A1).
- (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 entity. (Ref: Para. 511.9 A2).
- (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 R511.3, or their immediate family members; or
  - (ii) Individuals with a close personal relationship with a member of the audit team. (Ref: Para 511.9 A3).

511.9 A1 A self-interest threat might be caused 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 caused depends on factors such as:

- The nature of the relationship between the member of the audit team and the close family member; and
- 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 [SS209]: 290.105

Commented [SS210]: 290.107

Commented [SS211]: 290.113

Commented [SS212]: 290.115

Commented [SS213]: 290.105

Commented [SS214]: Examples of safeguards

The Conceptual Framework contained in Section 120 applies in all circumstances

511.9 A2 Self-interest, familiarity, or intimidation threats might be 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 might depend upon factors such as:

- 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.

511.9 A3 Whether the interests described in paragraph R511.9 (d) cause a self-interest threat might depend on factors such as:

- 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.

## Subsection 512

### Loans and Guarantees

#### Introduction

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

#### Requirements and Application Material

##### Loans and Guarantees with a Bank or Similar Institution

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Commented [SS216]: Examples of safeguards

Commented [SS217]: 290.115

Commented [SS218]: Examples of safeguards

Commented [SS219]: New paragraph

The Conceptual Framework contained in Section 120 applies in all circumstances

**R512.2** 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 [SS220]: 290.117

512.2 A1 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 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 [SS221]: 290.118

512.2 A2 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, does not 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. *Loans and guarantees with a Client that is Not a Bank or Similar Institution*

Commented [SS222]: 290.119

**R512.3** 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:

Commented [SS223]: 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.

**R512.4** 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:

Commented [SS224]: 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*

**R512.5** 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 [SS225]: 290.122

## Section 520

### Other Relationships



The Conceptual Framework contained in Section 120 applies in all circumstances

#### Scope of this Section

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

Commented [SS226]: 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 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 Application Material

R520.2 A professional accountant shall apply the conceptual framework contained in Section 120 and paragraph R400.6 in relation to other relationships.

Commented [SS227]: New paragraph

520.2 A1 Subsections 521 to 526 contain requirements and application material related to specific types of relationships that might cause threats to compliance with the fundamental principles. In addition, other types of relationships might also cause such threats.

### Subsection 521

#### Business Relationships

##### Introduction

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

Commented [SS228]: 290.123

#### Requirements and Application Material

##### *Firm or Audit Team Member Relationships*

R521.2 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 network firm or the member of the audit team, as the case may be, and the client or its management.

Commented [SS229]: 290.123

The Conceptual Framework contained in Section 120 applies in all circumstances

**R521.3** 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 120 and paragraph R400.6.

**Commented [SS230]:** 290.123, last paragraph

*Common Interests in Closely-Held Entities*

**R521.4** 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 [SS231]:** 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.

521.4 A1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

**Commented [SS232]:** 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*

521.5 A1 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 cause a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they cause a self-interest threat.

**Commented [SS233]:** 290.125

*Examples of safeguards include:*

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

**Commented [SS234]:** Safeguards Examples of safeguards

The Conceptual Framework contained in Section 120 applies in all circumstances