

The Constitution of the Association of International Accountants (AIA)

Company Number: 00264086 | from 7 March 2022

Introduction

Founded in 1928, the Association of International Accountants (AIA) is a global membership body for professional accountants which promotes the concept of 'international accounting'. We have created a global network of world class accountants in over 80 countries worldwide by offering high-quality, relevant and innovative qualifications; alongside the provision of first-class and tailored services for our members around the world.

AIA works in the public interest, ensuring that our members are appropriately regulated for the work that they carry out. Find out more at www.aiaworldwide.com/about-us/

In the UK, AIA is a Recognised Qualifying Body (RQB) for statutory auditors, regulated by the Financial Reporting Council (FRC).

AIA is a Prescribed Body under the Companies (Auditing and Accounting) Act 2014 in the Republic of Ireland and we also have supervisory status for our members under the UK and Republic of Ireland Money Laundering Regulations.

AIA believes in creating a global accountancy profession; we support the International Federation of Accountants (IFAC) in their vision of a global accountancy profession recognised as a valued leader in the development of strong and sustainable organisations, financial markets and economies. AIA has adopted IFAC's Code of Ethics for professional accountants and also incorporates IFAC's International Education Standards (IES) into our own policies and procedures.

AIA members work throughout the whole spectrum of the accountancy profession. Many of our members are at the top of the accountancy industry, from senior management to director level. Additionally, significant numbers of our members work in small and medium sized businesses (SMEs) and we strive to champion the importance of SMEs and their needs.

The Constitution of the Association covers the rights and obligations of Members of the Association and also gives a structured framework for the governance processes of the Association. The Constitution is split into the following separate documents, which come together as one to form the regulatory framework under which the Association operates:

- a) Memorandum of Association
- b) Articles of Association
- c) Bye-Laws
- d) Regulations
- e) Code of Ethics

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Memorandum of Association

THE COMPANIES ACT 2006

Company limited by Guarantee and not having a Share Capital

Memorandum of Association

of

THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS

1. The name of the Company is 'THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS'.
2. The registered office of the Company is situated in England.
3. The objects for which the Company is established are:
 - 3.1. To provide an International Organisation for Accountants in all parts of the world in order to secure for them a definite and recognised professional status, to safeguard and advance their interests, to take such steps as may be deemed necessary to promote greater general efficiency and to impose through supervision of the members or otherwise the observance of proper professional conduct.
 - 3.2. To provide the means whereby the members can practise as accountants in the United Kingdom or elsewhere in accordance with any relevant statutory legislation or other requirement whether enacted or demanded in the United Kingdom or elsewhere.
 - 3.3. To provide the means to regulate and to monitor the conduct and efficiency of members who are practising as accountants in the United Kingdom or elsewhere in the world so as to maintain proper professional standards in the profession of accountancy.
 - 3.4. To inaugurate a system of requiring accountants who have obtained professional qualifications in countries outside the United Kingdom to acquire such additional qualifications as may be deemed necessary to practise the profession of accountancy within the countries of the United Kingdom as a condition precedent to their obtaining Membership of the Company, and to encourage and facilitate the adoption of the same or similar systems by sister branch organisations in other countries.
 - 3.5. To provide means of testing the qualification of candidates
 - (a) for admission to Membership of the Company; and

- (b) for recognised professional qualifications under the Companies Act 2006 or any other similar enactment or requirement in respect of accountants practising outside the United Kingdom by examination in the theory and practice of accountancy and cognate subjects, and to issue certificates of competency, prizes, medals, scholarships, or rewards to successful candidates so as to enable the members to act as accountants;
 - (c) for qualification through the Association's Professional Examinations or by other qualifications offered by the Association based upon a specific accountancy discipline or disciplines;
 - (d) or any other qualifications.
- 3.6. To hold conferences and meetings for the discussion of accountancy matters and duties, the reading of papers and the delivery of lectures, to reissue copies or abridgements of papers, lectures, records and other memoranda, to instil a high standard of professional ability by means of the periodical issue of the Journal of the Company and generally to disseminate professional accountancy knowledge, with a view to improving and raising the status of the accountancy profession, and of members of the Company in particular.
- 3.7. To promote the professional development of the members.
- 3.8. To form a library or libraries for the use of Members and Students.
- 3.9. To act as treasurer and distributor of any benevolent fund or funds which may be raised for the purpose of affording financial assistance to necessitous persons who are or have been members of the Company and to any of the dependent kindred of deceased members in necessitous circumstances, and to make contributions out of the income of the Company from time to time to such benevolent fund or funds.
- 3.10. To take any gift of property, whether subject to any special trust or not, for any one or more of the objects of the Company.
- 3.11. To borrow and raise money for the purposes of the Company in such manner as may be thought fit.
- 3.12. To invest any monies of the Company not immediately required for any of its objects in such manner as may from time to time be determined.
- 3.13. To sell, manage, lease, mortgage, dispose of or otherwise deal with all or any part of the property of the Company as may be deemed expedient with a view to the promotion of its objects.
- 3.14. To purchase, lease, rent, hold or dispose of any buildings to be used as an institute, college or lecture rooms, or any other property, real or personal, for the advancement of the above objects or any of them.

- 3.15. To establish and support and to aid in the establishment and support of any other association formed for all or any of the objects of the Company.
- 3.16. To amalgamate with any other association or associations having objects in whole or in part similar to those of the Company.
- 3.17. To establish and support or aid in the establishment and support of associations, institutions, funds, trusts, superannuation funds and conveniences calculated to benefit employees or ex-employees of the Company or its predecessors in business, or the dependents or connections of such persons and to grant pensions and allowances and to make payments towards insurance and to subscribe or guarantee money for charitable or benevolent objects or any other exhibition or for any public, general or useful object.
- 3.18. To procure that if, upon winding up or dissolution of the Company, there remains, after the satisfaction of all its debts and liabilities, any property whatever, the same shall not be paid to or distributed among the members of the Company, but shall be given or transferred to some other institution or institutions having objects similar to the objects of this Company, to be determined by the members of the Company, at or before the time of dissolution, or in default thereof; by such Judge of the High Court as may have or acquire jurisdiction in the matter.
- 3.19. To apply, petition for, or promote any Act of Parliament, Royal Charter or other authority with a view to the attainment of the above objects or any of them.
- 3.20. To do all other such lawful things as are incidental or conducive to the attainment of the above objects or any of them.
4. The income and property of the Company whencesoever derived shall be applied solely towards the promotion of the objects of the Company as set forth in this Memorandum, and no portion thereof shall be paid or transferred, directly or indirectly, by way of dividend, bonus or otherwise, howsoever, by way of profits to the members of the Company, provided that nothing herein shall prevent the payment or remuneration in good faith to any officers or servants of the Company or to any member of the Company or other person in return for any services actually rendered to the Company or other sources at such rate as the Company shall from time to time determine.
5. The Company may take over existing liabilities of any Institute which it may acquire and may likewise take over and hold for its own use the assets of any such Institute.
6. True accounts shall be kept of all money received and expended by the Company and of its property Real and Personal, its credits and liabilities and once at least in each year accounts shall be examined and audited.
7. Every person who shall be admitted to the Company as a member undertakes to contribute to the assets of the Company in the event of same being wound up during

the time that he is a member or within one year afterwards for payment of the debts and liabilities of the Company contracted prior to the time at which he ceases to be a member and the costs, expenses and charges of any such winding up of the Company and for the adjustment of the rights of contribution, if any, amongst themselves, such amounts as shall be required upon such winding up but not exceeding a sum of fifty pence per member.

8. The liability of members is limited.
9. The Company shall maintain policies and/or plans:
 - 9.1. To identify and manage business risk;
 - 9.2. To mitigate, and as far as possible correct, any incidental/disturbance having the potential for adverse effect on Members or Students; and
 - 9.3. To prioritise, as far as reasonable and possible, the interests of Students, as regards continuity of study and examination, in the event that the Company is acquired by, or merged with, another organisation, (or in the event that it is wound up).
 - 9.4. To investigate complaints and where appropriate to impose disciplinary sanctions on students, members, study providers and other contracted persons.

Articles of Association

Company Number: 00264086

Approved by the Council and Members of the Association in General Meeting and effective from 9 April 2021.

THE COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY GUARANTEE AND NOT HAVING SHARE CAPITAL

ARTICLES OF ASSOCIATION OF THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS (AIA)

1. Definitions and Interpretation

- 1.1. In these presents the words standing in the first column of the Table next hereinafter contained shall bear the meanings set opposite to them respectively in the second column thereof, if not inconsistent with the subject or context:
- 1.2. The definitions set out in this Article 1.2 shall apply in these presents.

Words	Meanings
Academic Fellow Member	A person experienced in the fields of academic study or teaching relevant to the profession or practice of accountancy who should have been appointed in the least to a position equivalent of a lecturer at a tertiary educational establishment.
accounting standards	Standards and guidance issued or adopted by the Financial Reporting Council (UK) which are in force, or as appropriate per the relevant jurisdiction.
the Act of 2006	The Companies Act, 2006 to the extent in force from time to time.
the Acts	The Companies Act, 1985, 1989 and 2006

Appellant	A Member or an Elected Member, a Firm, or Student who appeals against a decision of the Disciplinary Committee.
application	In respect of an application for a Practising Certificate means an application either for the first grant of such certificate or for the renewal thereof and “apply” shall be construed accordingly.
the Association	The Association of International Accountants.
Associate	A person who has been admitted to membership of the Association in such capacity.
ATOL Reporting Accountant	A Member or Firm authorised to sign off accounts for a company holding an Air Travel Organisers License (ATOL).
Audit	The audit required to be carried out by a qualified statutory auditor of companies and other entities by statute or otherwise.
auditing standards	Standards and guidance issued by the Financial Reporting Council (UK) which are in force or as appropriate per the relevant jurisdiction.
CAA	Civil Aviation Authority.
Certificate of Membership	A Certificate demonstrating that the person named in it is a Member of the Association.
the Chief Executive	The Chief Executive of the Association appointed by the Council, or the person acting in that capacity by the direction of the Council.
Code of Ethics	The Code of Ethics adopted by the Association for the time being in force.
Companies Acts	The Companies Acts applicable to the United Kingdom.
Company Secretary	The Company Secretary appointed by the Council.
Complaint	Any complaint, allegation, expression of concern, matter or event relating to the conduct (whether by act or omission) or performance of any Member, Elected Member, Firm or Student which appears to render

	them liable to disciplinary action and is brought to the attention of the Secretary.
Complaints Reviewer	A person appointed to review a complaint referred to him in accordance with these presents.
Consent Orders	Orders by the Investigations Committee following a complaint which is dealt with by agreement between the Complainant and the Respondent whether through conciliation or other dispute resolution mechanism.
Continuing Professional Development	Ongoing educational training in accountancy and audit and related issues.
the Council	The Council for the time being of the Association.
Elected Member	Academic Fellow Member, Supervised Member and/or Honorary Member.
Electronic	Has the same meaning as in the 2006 Act.
Electronic Address	Any number or address used for the purposes of sending or receiving notices, documents or information by electronic means.
Electronic Form	Has the same meaning as in the 2006 Act.
Fellow	A person who has been admitted to the Association in such capacity.
Firm	A sole practitioner, partnership or a corporate practice which engages in the profession of accountancy.
Honorary Member	A person who the Council considers has contributed service of particular merit to the Association or the profession of accountancy.
IAASA	The Irish Auditing and Accounting Supervisory Authority.
Independent Examiner	Members of the Association who are eligible and permitted to prepare accounts and provide reports to accounts of charities under the Charities Act 2011.
industry and commerce	The administration of organisations of whatever kind engaged in industrial and commercial activities of every type including the nationalised industries; the decision

	of the Council as to whether or not a person is engaged in industry or commerce shall be conclusive.
Institute	Institute of Company Accountants which amalgamated with the Association in April 2003.
Irish Companies Acts	The Companies Acts applicable to the Republic of Ireland.
Member	A Member of the Association being a Fellow or Associate Member.
month	Calendar month.
Orders	Orders made in disciplinary proceedings by the Investigations, Disciplinary or Appeals Committees.
office	The registered office of the Association.
Part 42	The provision of Part 42 of the Act 2006.
these presents	The Articles of Association, Bye-Laws and Regulations of the Association as applicable and in force, as amended from time to time.
Prescribed Accountancy Body	A body of accountants prescribed under the Republic of Ireland Companies (Auditing and Accounting) Act 2014 for the purposes of that Act as relating to the role of IAASA.
public practice	Practice as a public accountant, including in the UK acting as Independent Examiner for the purposes of the Charities Act 2011 whether in the capacity of sole principal, in partnership or through the medium of a body corporate or otherwise and “practising” as applied to an accountant shall have the same connotation.
public service	The administrative organisations of central, regional or local government and all public bodies of a non-industrial character; the decision of the Council as to whether or not a person is engaged in the public service shall be conclusive.
UK Practising Certificate	A certificate issued to a Member by the Association authorising him to engage in public practice in the UK including acting as an Independent Examiner.

Practising Certificate	A certificate issued to a Member by the Association authorising him to engage in public practice.
Quality Control Standards	Standards and guidelines issued by the International Auditing and Assurance Standards Board (IAASB) and the Financial Reporting Council (UK) which are in force.
Recognised Professional Qualification	A professional qualification in accountancy or audit awarded by a body recognised as authorised to make such awards in the United Kingdom.
Recognised Qualifying Body	An accountancy body established under the Companies Acts for the purpose of qualifying statutory auditors practising in the UK.
Recognised Supervisory Body	An accountancy body established under the Companies Acts for the purpose of registering and supervising qualified statutory auditors practising in the UK.
the Register	The Register of members of the Association.
Regulatory Requirement	Requirements of the Articles, Bye-Laws, Regulations and Code of Ethics relating to the Practice functions of Members, and Firms, and in respect of Members' compliance with requirements for Continuing Professional Development.
report work	Work undertaken by an Independent Examiner.
Respondent	A subject of a Complaint whether that subject is a Member, Elected Member, Firm, or Student.
Seal	The Common Seal of the Association.
Secretary	The person appointed pursuant to the Association's Complaints, Disciplinary and Appeals Regulations.
Senior Accountant	An accountant or auditor who has been employed as an accountant in public practice in industry or commerce or occupied a professional position which in the opinion of the Council is equivalent thereto.
the Small Company Audit Exemption and Reporting Code	The provisions in Part 15 of the Act of 2006 which apply to the small companies regime for accounts and reports.

Small Companies Regime	Those companies that qualify as small companies or groups and are not excluded from that regime by section 384 of The Act of 2006.
Statutory Auditor	A person or firm appointed as auditor under Part 16 of the Act of 2006 or as otherwise defined under section 1210 of that Act.
Student	A person for the time being registered as a Student with the Association in accordance with these presents.
Supervised Member	A person elected to be a member of the Association by the Council for purposes of supervision under the Anti Money Laundering Regulations in force at the time, and who has satisfied the Council that he has met all requirements set out in these presents for recognition in this class of membership.
in writing	Written, printed, photocopied or partly one and partly another, and other modes of representing or reproducing words in a visible form and documents sent or supplied in electronic form or made available on a website are “in writing” for the purposes of these Articles.

1.3. A reference to:

- (a) a “person” includes a reference to:
 - i. any individual, firm, partnership, unincorporated association or company wherever incorporated or situated; and
 - ii. that person’s legal personal representatives, trustees in bankruptcy and successors
- (b) “bankruptcy” includes individual insolvency proceedings in a jurisdiction other than England and Wales or Northern Ireland which have an effect similar to that of bankruptcy;
- (c) a “document” includes, unless otherwise specified, any document sent or supplied in Electronic Form; and
- (d) a “company” shall include any company, corporation or other body corporate, wherever and however incorporated or established.

1.4. Unless the context otherwise requires:

- (a) words importing the singular number only shall include the plural number, and vice versa;
 - (b) words importing the masculine gender only shall include the feminine gender; and
 - (c) words importing persons shall include corporations.
- 1.5. Any reference to a specific statute includes any statutory extension or modification or re-enactment of such statute and any bye-laws, regulations, orders, made thereunder.
- 1.6. Subject as aforesaid, any words or expressions defined in an Act or any statutory modifications thereof in force at the date on which these presents become binding on the Association shall, if not inconsistent with the subject or context, bear the same meaning in these presents.

2. Memorandum

- 2.1. The Association is established for the purposes expressed in the Memorandum of Association.
- 2.2. The Memorandum of Association shall form part of these presents.

3. Model Articles Shall Not Apply

- 3.1. Neither the model articles for private companies limited by guarantee prescribed pursuant to the Act, nor any other articles of association (whether prescribed pursuant to the Act or set out in any other statute, statutory instrument or other subordinate legislation concerning companies) shall apply to the Association.

4. Members and Membership

- 4.1. The Association is declared to consist of an unlimited number of Members.
- 4.2. No person shall be entitled to Membership of the Association unless he has:
- (a) completed and submitted an application for membership using the prescribed form;
 - (b) satisfied the requirements set out in these presents as amended from time to time; and

- (c) had his application for membership approved by the Council of the Association.
- 4.3. The Members of the Association shall be the present Members and Elected Members and such other persons as shall be admitted to membership upon the terms and conditions contained in these presents.
- 4.4. There shall be five classes of members:
 - (a) Fellows
 - (b) Associates
 - (c) Supervised Members
 - (d) Academics Fellows, and
 - (e) Honorary Members
- 4.5. The classes of Fellows and Associates shall each be divided into two categories, namely:
 - (a) those members qualified to engage in public practice; and
 - (b) those members not so qualified..
- 4.6. The Supervised, Academic Fellow and Honorary Members shall be known as Elected Members.
- 4.7. The rules and requirements of admission to Membership of the Association by individuals shall be fixed by the Bye-Laws and Regulations of the Association, as amended from time to time.
- 4.8. Members and Elected Members shall be obliged where applicable and appropriate to observe the requirements set out in these presents.

5. Entrance Fees and Subscriptions

- 5.1. The fees and subscriptions payable by the members shall be fixed by the Bye-Laws and Regulations of the Association, as amended from time to time, and the annual subscriptions shall be payable in advance.

6. Liability of Members

- 6.1. The liability of each Member is limited to that set out in the Memorandum, being the amount that each Member undertakes to contribute to the assets of the Association in the event of its being wound up while they are a Member or within one year after they cease to be a Member, for:
- (a) payment of the Association's debts and liabilities contracted before they cease to be a Member;
 - (b) payment of the cost, charges and expenses of winding up; and
 - (c) adjustment of the rights of the contributions among themselves.

7. Non-Distribution of Income

- 7.1. The Association shall apply the income and property of the Association from whatever sources, solely towards its activities and no part of such income shall be paid or transferred directly or indirectly, by way of dividend, bonus, or otherwise by way of profit, to the Members of the Association. Nothing in these presents shall prevent the payment in good faith, of reasonable and proper remuneration to any officer or employee of the Association or to any Member of the Association in return for any services actually provided to the Association, nor prevent the payment of interest at a reasonable rate on money lent or reasonable and proper rent for premises demised or let by any Member of the Association.

8. General Meetings

- 8.1. An Annual General Meeting shall be held in accordance with the provisions of the Companies Acts.
- 8.2. The Council may convene a General Meeting and General Meetings may also be convened on such requisition by Members as may be provided by the Companies Acts for the time being in force.
- 8.3. Where the Association has given in electronic form any notice of meeting, any document or information relating to proceedings at the meeting may be sent by electronic means to an address subject to any conditions or limitations specified in the relevant notice of meeting.
- 8.4. The accidental omission to give notice of a meeting to, or the non-receipt of such notice by, any Members shall not invalidate any resolution passed, or proceedings conducted, at any meeting.

9. Proceedings at General Meetings

- 9.1. All business shall be deemed special that is transacted at a General Meeting and all that is transacted at an Annual Meeting shall also be deemed special, with the exception of the consideration of the accounts and balance sheet, and the reports of the Council and of the Auditors, the election of members of the Council and other officers in the place of those retiring by rotation and the appointment and remuneration of Auditors.
- 9.2. No business shall be transacted at any General Meeting unless a quorum of Members is present at the time when the meeting proceeds to business. For all purposes the quorum shall be ten Members personally present.
- 9.3. If within half-an-hour from the time appointed for the Meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place or at such other place as the Chairman shall appoint, and if at such adjourned meeting a quorum is not present within half-an-hour from the time appointed for the meeting the Members present shall be a quorum.
- 9.4. The Chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transferred at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.
- 9.5. The Chairman of the Council shall preside at every General Meeting. If there be no such Chairman or if at any meeting he shall not be present within fifteen minutes after the time appointed for holding the same, or shall be unwilling to preside, a Vice-Chairman of the Council shall preside. If no member of the Council be present, or if all the members of the Council present decline to take the chair, the Members present shall choose one of their number to be Chairman.
- 9.6. At all General Meetings a resolution put to the vote of the meeting shall be decided on a show of hands by a majority of the Members present in person and entitled to vote, unless before or upon the declaration of the result of the show of hands a poll be demanded in writing by the Chairman or by at least five Members present in person and entitled to vote, and unless a poll be so demanded a declaration by the

Chairman of the meeting that a resolution has been carried or has been carried by a particular majority, or lost or not carried by a particular majority, shall be conclusive, and an entry to that effect in the minute book of the Association shall be conclusive evidence thereof, without proof of the number or proportion of the votes recorded in favour of or against such resolution.

- 9.7. If a poll be demanded in manner aforesaid, it shall be taken at such time and place, and in such manner, as the Chairman of the meeting shall direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
- 9.8. No poll shall be demanded on the election of a Chairman of a meeting, or on any question of adjournment.
- 9.9. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.
- 9.10. The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

10. Votes of Members

- 10.1. Every Member being a Member whose subscription shall have been paid for the current year shall be entitled to one vote.
- 10.2. Save as herein expressly provided, no person other than a Member duly registered and who shall have paid every subscription and other sum (if any) which shall be due and payable to the Association in respect of his membership, shall be entitled to be present or to vote on any question either personally or by proxy for another Member, at any General Meeting.
- 10.3. On a poll votes may be given either personally or by proxy and a proxy must be a Member of the Association entitled to be present and to vote.

11. Proxies

- 11.1. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing. The instrument appointing a proxy and the power of attorney (if any) under which it is signed or a duly certified copy thereof shall be deposited at the Registered Office at least 48 hours before the time appointed for holding the meeting at which the person named in such

instrument proposes to vote, otherwise the person so named shall not be entitled to vote in respect thereof. An instrument appointing a proxy shall be valid for that meeting or adjournment thereof.

- 11.2. In the case of an appointment by proxy in electronic form the proxy shall be received at the address specified in the notice convening the meeting or in any instrument of proxy or in any invitation to appoint a proxy sent out or made available by the Association in relation to the meeting not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the appointment of proxy proposes to vote.
- 11.3. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal or revocation of the proxy, provided that no intimation in writing of the death or revocation shall have been received at the office not less than 12 hours before the time fixed for holding the meeting.
- 11.4. Subject to Article 11.5 any instrument appointing a proxy shall be in the following form or as near thereto as circumstances will admit:

“THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS

I of

.....

being a Member of the Association of International Accountants hereby appoint

.....of

.....another Member of the Association, and failing

him of

another Member of the Association, as my proxy to vote for me and on my behalf at the

Annual or (as the case may be) General Meeting of the Association to be held on the

..... day of and at any adjournment thereof.

FOR

AGAINST

As witness my hand this day of20....”

- 11.5. The Council may allow the appointment of a proxy to be sent to or supplied in electronic form subject to any conditions or limitations as the Council may specify and where the Association has given an electronic address in any instrument of

proxy or invitation to proxy, any document or information relating to proxies for the meeting (including any document to show the validity of or otherwise relating to the appointment of a proxy or notice of the termination of the authority of a proxy) may be sent by electronic means to that address subject to any conditions or limitations specified in the relevant notice of meeting.

12. Council

- 12.1. There shall be a Council which shall for all purposes be the governing body of the Association. The Council shall consist of not fewer than five nor more than twenty members. Members of the Council shall be elected by the Association in Annual General Meeting in accordance with the following articles.
- 12.2. The Council may from time to time and at any time appoint any Fellow of the Association as a member of the Council, either to fill a casual vacancy or by way of addition to the Council, provided that the prescribed maximum be not thereby exceeded. Any Fellow so appointed shall retain his office only until the next Annual General Meeting, but he shall then be eligible for re-election.
- 12.3. No person shall be eligible to hold office as a member of the Council unless he is a Fellow of the Association or has been elected to the Council pursuant to Article 22.
- 12.4. Members of Council will be required to sign a confidentiality agreement and a conflict of interest and disclosure statement.
- 12.5. Any member of the Council, either individually or as a member of a partnership, company or corporation, may, subject always to Article 7.1, be interested in any operation, undertaking, or business in which the Association is interested, and no contract or arrangement by or on behalf of the Association under which such interest arises shall be annulled, nor shall any member of the Council so interested be liable to account for any profit realised by him under such contract or arrangement by reason only of his being a member of the Council or of the fiduciary relation thereby established, provided the nature and extent of such interest be disclosed by him at the meeting of the Council at which such contract or arrangement is determined on if his interest then exist, or in any other case at the first meeting of the Council after the acquisition of his interest.
- 12.6. Any member of the Council may be appointed to any office under the Association, other than that of Auditor, with or without remuneration.
- 12.7. No member of the Council shall be disqualified to act as such by reason of his being so interested or appointed as in Articles 12.2 and 12.5 mentioned, but he shall not vote at the meetings of the Council or any matters relating to any operation,

undertaking, or business in which he is interested, either individually or as a member of a partnership or as a director or officer of any company or corporation, and if he shall so vote his vote shall not be counted.

13. Powers and Responsibilities of the Council

- 13.1. The business of the Association shall be managed by the Council who may exercise all such powers of the Association taking regard to the following:
- (a) no regulation made by the Association in General Meeting shall invalidate any prior act of the Council which would have been valid if such regulation had not been made;
 - (b) the Council shall assure itself that the Association, as a company and professional accountancy body, complies with statutory standards and requirements, the requirements (including directions and sanctions within their authority) of Statutory Regulators that have a role in relation to the Association;
 - (c) the Council shall agree arrangements as appropriate for the monitoring of such compliance and for being kept informed of the position.
- 13.2. Notwithstanding any vacancy on the Council, the continuing members may act provided always that in case the members of the Council shall at any time be reduced in number to less than the minimum number prescribed by or in accordance with these presents it shall be lawful for them to act as the Council for the purpose of filling vacancies, or of summoning a General Meeting of Members, but not for any other purpose.
- 13.3. The Council shall have, but not be limited by, the following duties and powers (and may make Bye-Laws and Regulations to proscribe):
- (a) The Council may from time to time set down in these presents the procedures (including relating to the hearing of appeals) whereby an individual or firm subject to these presents may be disciplined and as to all other matters relating thereto including the imposition of sanctions;
 - (b) The Council may take account of any matter which may be brought before them affecting the Association, or the conduct of any of its Members, affecting his professional status or the reputation of the Association;
 - (c) The Council may from time to time adopt and amend a Code of Ethics for its Members, Students and Elected Members and may from time to time interpret

the application of such rules to the conduct of Members, Elected Members, Firms and Students;

- (d) The Council may cause to be implemented a system of review as to the maintenance by Members, Elected Members, Firms and Students of proper professional standards as prescribed in these presents and such rules shall be binding upon Members, Elected Members, Firms and Students;
- (e) The Council shall have the power to monitor compliance with these presents, and, without limit, investigate, make directions, issue sanctions, charge costs, suspend and expel members, and publish outcomes of disciplinary matters;
- (f) The Council shall have the power to issue, suspend and revoke licenses and certificates and set conditions for their issue, suspension and revocation;
- (g) The Council shall have the power to share information with regulators, including IAASA, pursuant to legislation.
- (h) The Council shall have the power to make all such regulations as it shall consider necessary or desirable in connection with the carrying on of public practice or other activities in the United Kingdom or elsewhere.
- (i) The Council may make Bye-Laws and Regulations concerning such matters regarding the conditions a person must satisfy to become and remain a Student and such other matters relating to or connected with Students as the Council shall in its discretion consider necessary or desirable.
- (j) The Council may create a fund to be called the Parliamentary Fund, which fund shall be applied in or towards payment of the costs, charges and expenses incurred by the Association in promoting or in joining with any other Association, Institution, Corporation or Society of Accountants in the promotion of or in taking any proceeding in support of any Act of or Bill in Parliament, Royal Charter, Provisional or Statutory Order, Order-in-Council or Letters Patent or other authority having for its object the uniting of the members of the profession into one general body or any other object calculated to benefit the members of the Association in any part of the world or the profession as a body or in opposing any Bill in Parliament or application for any Charter or Provisional or Statutory Order, Order-in-Council, Letters Patent or other authority having for its objects or containing any provisions which they may consider inimical or prejudicial to the interests of the members of the Association in any part of the world. The Council may for the purpose of creating and maintaining the Parliamentary Fund from time to time make a levy on each member of the Association of such sum or sums as they may determine.

14. Disqualification of Members of the Council

14.1. The office of a member of the Council shall be vacated:

- (a) if by reason of giving notice in writing to the Association he resigns from office;
- (b) if by virtue of retirement under Articles 15.1 and 15.2;
- (c) if a Member is subject to disciplinary proceedings under Bye-Law 8;
- (d) if the Member ceases to hold office by virtue of any provision of the Companies Acts;
- (e) in the event of any serious or repeated breach (after prior warning) or non-observance by the Member of any of the stipulations contained in the Association's Articles of Association or Bye-Laws (or Regulations made under them) or Code of Ethics of the Association as amended from time to time including (without limitation) ceasing to qualify as a Fellow of the Association;
- (f) if the Member is guilty of any gross default or misconduct in connection with or affecting the business of the Association;
- (g) if the Member becomes bankrupt or makes any composition or enters into any arrangement with his creditors;
- (h) if the Member is convicted of any arrestable criminal offence (other than an offence under road traffic legislation in the United Kingdom or elsewhere for which a fine or non-custodial penalty is imposed);
- (i) if the Member is guilty of any fraud, dishonesty or conduct tending to bring himself or the Association into disrepute;
- (j) if the Member is disqualified from holding office in a company in which he is concerned or interested because of wrongful trading under the Insolvency Act 1986;
- (k) if the Member shall become of unsound mind or become a patient under the Mental Health Act 1983 (as amended from time to time);
- (l) if the Member is convicted of an offence under the Criminal Justice Act 1993 Pt. V or under any other present or future statutory enactment or regulations relating to insider dealings;
- (m) if the Member has held the office of a member of the Council for more than nine cumulative years from the date of his first election, unless:

- i. the Member was elected on or before the Annual General Meeting held in 2010, where the Member shall vacate his office at the Annual General Meeting in 2022; or
- ii. the Member was elected for the first time before the Annual General Meeting held in 2019 but after the Annual General Meeting held in 2010, where the Member shall vacate his office at the Annual General Meeting in 2025; or
- iii. he is elected to the office of President or Vice President, where an extension of service shall be granted at the discretion of the Council; or
- iv. the Council shall decide by resolution that invoking Article 14.1(m) would have a detrimental effect on the Association's ability to meet its statutory obligations.

15. Election, Retirement, Removal and Rotation of Members of the Council

- 15.1. At the Annual General Meeting in every year one-third of the members of the Council for the time being, or if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. A retiring member of the Council shall retain his office until the dissolution or adjournment of the meeting at which his successor is elected or it is determined not to fill his place.
- 15.2. The members of the Council to retire shall be those who have been longest in office since their last election or appointment. As between members of equal seniority, the members to retire shall in the absence of agreement be selected from among them by ballot. The length of time a member has been in office shall be computed from his last election or appointment. A retiring member of the Council shall be eligible for re-election.
- 15.3. Every retiring member of the Council eligible for re-election shall, unless he shall have signified in writing to the Council his desire not to offer himself for re-election, be deemed to be nominated for election.
- 15.4. The Association may, at the meeting at which any member of the Council retires in manner aforesaid, fill the vacated office of each member by electing another Fellow thereto, unless at such meeting it may be determined to reduce the number of members of the Council.
- 15.5. No person, except a member of the Council retiring at the meeting and seeking re-election, unless recommended by the Council, shall be eligible for election to the Council, unless there shall be given to the Company Secretary not less than one

month before the day appointed for the meeting, notice in writing, signed by ten Members duly qualified to vote for such election, of their nomination of such person for election, and also notice in writing signed by the person nominated of his willingness to be elected. No such nomination shall be valid if the person nominated, or any of his nominations, is under any pecuniary liability to the Association.

- 15.6. If the candidates eligible for election to the Council are not more in number than the vacancies, such candidates shall, as from the next Annual General Meeting, be deemed to be duly elected members of the Council.
- 15.7. If the candidates eligible for election are more in number than the vacancies, any of such candidates in excess of the number to be elected may withdraw, or consent to be withdrawn by the nominators in writing, but if the candidates still remain in excess of the number to be elected, the election shall be conducted by voting papers as hereinafter provided.
- (a) The Chairman, or failing him, a Vice-Chairman shall, from among the Members of the Association other than the candidates, forthwith appoint six scrutineers of whom two shall be members of the Council.
 - (b) Three scrutineers shall form a quorum.
 - (c) If the scrutineers be reduced to below three in number by reason of death, or refusal or incapacity to act, the Chairman or failing him a Vice-Chairman, shall appoint other members to fill each vacancy.
 - (d) The Company Secretary shall, as soon as possible, send a voting paper by prepaid post to every Member whose subscription is not in arrears, such voting paper to be in the form approved by the Council.
 - (e) The accidental omission to send a voting paper to any Member, or the non-receipt thereof, shall not in any way invalidate either the procedure or the result of any election.
 - (f) The voting papers, duly sealed, shall be delivered or returned by post, prepared to the Company Secretary at least five clear days before the date fixed for the Annual General Meeting, and the Company Secretary shall place them unopened in a locked box, and deliver them to the scrutineers by whom alone they shall be opened and examined.
 - (g) As soon as the voting papers have been examined and the result of the election ascertained by the scrutineers, the voting papers shall be closed up under the seals of the scrutineers, and shall be retained by them for one month after the election, when they shall be destroyed by the scrutineers.

- (h) The scrutineers shall make and sign a report in which they shall state the total number of voting papers received, the number rejected and the grounds for rejection, the total number of votes in favour of each candidate, and the names of those who are duly elected, and shall hand such report to the Company Secretary, not later than the day next before the date of the Annual General Meeting.
 - (i) The scrutineers' report shall be conclusive as to the fact of the election, notwithstanding any irregularity or informality. Provided always that if there be an equality of votes, the Annual General Meeting may give such casting vote or votes as may be necessary to remove the equality and complete the election. Such casting vote or votes shall be given by a show of hands, and no poll shall be demanded thereon.
 - (j) Elections under this Article shall take effect as from the Annual General Meeting.
- 15.8. The Association may from time to time in General Meeting increase or reduce the number of members of the Council, and determine in what rotation such increased or reduced number shall go out of office, and may make the appointments necessary for effecting any such increase.
- 15.9. In the event of any member of the Council failing to attend four consecutive meetings of the Council, of which he has been duly notified, the Council may unless his absence was caused by illness (or other circumstances which in the opinion of the Council justified his absence) resolve that he cease to be a member of the Council and may elect another Member to fill the casual vacancy thus caused.
- 15.10. The Association may by Ordinary Resolution of which special notice has been given remove any member of the Council before the expiration of his period of office, and may by an Ordinary Resolution appoint another member in his stead; but any person so appointed shall retain his office so long only as the member in whose place he is appointed would have held the same if he had not been removed.

16. Proceedings of the Council

- 16.1. The Council may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the quorum necessary for the transaction of business.
- 16.2. Unless otherwise determined by the Council, four shall be a quorum.

- 16.3. Questions arising at any meeting shall be decided by a majority of votes. In the case of any equality of votes the Chairman shall have a second or casting vote.
- 16.4. Council meetings shall be called by the Company Secretary at any time at the request of the Chairman or Vice-Chairman or of five members of the Council by giving at least seven clear days' notice to the several members of the Council.
- 16.5. The Council shall elect annually one of their number to be President of the Association and one or more to act as Vice-President all of whom shall hold office until the first Council meeting following the ensuing Annual General Meeting.
- 16.6. The President shall also be Chairman of the Council and any Vice-President shall also be Vice-Chairman of the Council.
- 16.7. The President, or in his absence a Vice-President, shall preside at all Council meetings or, if the President or any Vice-President be not present within five minutes after the time appointed for holding a meeting, the members of the Council present shall choose one of their number to be Chairman of the meeting.
- 16.8. A meeting of the members of the Council for the time being at which a quorum is present shall be competent to exercise all the authorities, powers and discretions by or under these presents for the time being vested in the Council generally.
- 16.9. The Article hereunder outlines the powers which may be delegated by the Council from time to time:
 - (a) The Council may appoint Committees in accordance with the Bye-Laws and Regulations for the time being in force, and subject to any such Bye-Laws and Regulations the Council may delegate any of their powers to Committees consisting of such member or members of the Council or non-members of the Association as they see fit, and any Committee so formed shall conform to any directions imposed on it by the Council. The meetings and proceedings of any such Committee shall be governed by the provisions of these presents for regulating the meetings and proceedings of the Council so far as applicable, and so far as the same shall not be superseded by any directions made by the Council as aforesaid.
 - (b) No person shall be a member of more than one of the Investigations Committee, the Disciplinary Committee, the Appeals Committee, the Practice Compliance Committee and the Practice Compliance Appeals Committee.
 - (c) No person who has been a member of the Council may, within two years of the date upon which he ceased to be a member of Council, be a member of the Investigations Committee, the Disciplinary Committee, the Appeals

Committee, the Practice Compliance Committee and the Practice Compliance Appeals Committee.

- 16.10. All acts bona fide done by any meeting of the Council, or of any Committee, or by any person acting as a member of the Council, or of any Committee, notwithstanding that it shall be discovered afterwards that there was some defect in the appointment of such Council, Committee or any such person or member of the Council or Committee acting as aforesaid, or that they or any of them were not qualified at the time of their appointment, or had become disqualified, shall be as valid as if such Council, Committee or person or member of the Council or Committee had been duly appointed and was qualified to act.
- 16.11. The Council shall cause proper minutes to be made of the proceedings of all meetings of the Association and of the Council and of Committees and all business transacted at such meetings, and any such minute of any meeting, if purporting to be signed by the Chairman of such meeting, or by the Chairman of the next succeeding meeting, shall be conclusive evidence without any further proof of the facts therein stated.

17. Bye-Laws and Regulations

- 17.1. The Council may from time to time make Bye-Laws and Regulations as it considers appropriate for the purpose of carrying on the business of the Association and regulating its affairs and so as to grant the powers necessary for it to fulfil its obligations as:
- (a) a Professional Accountancy Body;
 - (b) a Recognised Qualifying Body in the UK;
 - (c) a Prescribed Accountancy Body in the Republic of Ireland including supervision and monitoring of its members and prescribing qualifying standards for Members practising in the Republic of Ireland; and,
 - (d) a professional body supervisor for the purposes of the Money Laundering Regulations.
- 17.2. The Council may at any time annul, add to or vary any Bye-Laws or Regulations so made, and all Bye-Laws and Regulations so made and for the time being in force shall be binding on the members of the Association and shall have full effect accordingly.

17.3. The making, annulment or variation by the Council of Bye-Laws and Regulations in respect of the matters set out in paragraph 17.1 hereof shall take effect on a date specified by the Council following:

- (a) approval by the Association in General Meeting;
- (b) prior approval in respect of any matters referred to in paragraph 17.1 by IAASA.

provided that the effective date stipulated by the Council shall not be more than three months after the date of approval by IAASA.

17.4. The making, annulment or variation by the Council of Bye-Laws and Regulations in respect of the matters set out in paragraph 17.1 hereof shall take effect on a date specified by the Council following if defined by these presents:

- (a) approval by the Association in General Meeting;
- (b) prior approval in respect of any matters referred to in paragraph 17.1 by IAASA

provided that the effective date stipulated by the Council shall not be more than three months after the date of approval by IAASA.

17.5. No Bye-Laws or Regulations shall be made pursuant to this Article which would amount to such an addition to or alteration of these presents as could only lawfully be made by Special Resolution.

17.6. The Council may in its absolute discretion suspend the operation of any Bye-Law or Regulation where it is of the opinion that it is reasonable to do so.

18. Company Seal

18.1. The Seal of the Association shall not be affixed to any instrument except by the authority of a Resolution of the Council, and in the presence of at least two members of the Council and of the Chief Executive and the same members and Chief Executive shall sign every instrument to which the Seal shall be so affixed in their presence, and in favour of any purchaser or person bona fide dealing with the Association such signatures shall be conclusive evidence of the fact that the Seal has been properly affixed.

18.2. Certificates are excluded from the aforesaid provisions.

19. Indemnity

19.1. Every member of the Council or other officer of the Association shall be indemnified out of the assets of the Association against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, including any liability incurred by him in defending any proceedings, whether civil or criminal, or in connection with any application under Section 1157 of the Act of 2006 or its statutory predecessor in which relief is granted to him by the Court and no member of the Council or other officer shall be liable for any loss or damage which may happen to or be incurred by the Association in the execution of the duties of his office or in relation thereto, but this Article shall only have effect insofar as its provisions are not avoided by Section 232 of the Act of 2006 or its statutory predecessor. The Council shall have power insofar as it is permitted by the Act of 2006 to purchase and maintain for any member of the Council or officer of the Association insurance against any such liability as is referred to under Section 232 of the Act of 2006 or its statutory predecessors.

20. Annual Accounts and Report

- 20.1. The Council shall cause proper accounting records to be kept. The accounting records shall be kept at the office of the Association or at such other place or places as the Council shall determine and shall always be open to the inspection of the members of the Council.
- 20.2. Once in every year the Council shall present to the Members in General Meeting an Income and Expenditure Account for the last financial period made up as from the day after the date at which the last preceding such accounts was made up, together with a balance sheet as at the same date at which the Income and Expenditure Account is made up, accompanied by a report of the Council and a report of the Auditors.
- 20.3. A copy of the said account, balance sheet and reports shall be sent not less than 21 days before that meeting to all persons entitled to receive notices of General Meetings in the manner in which notices are hereinafter directed to be served.
- 20.4. The Council shall cause Auditors to be appointed and their duties regulated in accordance with the Companies Acts. Auditors may not be appointed who are:
- (a) a member of the Council or an official or individual in employment of the Association;
 - (b) a Member who is a partner of or in the employment of a member of the Council or of an official or individual in employment of the Association.

- 20.5. Subject to Article 21 the Association may deliver all Publications published by the Association to members by making them available on its website and any notice or accompanying papers delivered in accordance with these presents shall be deemed validly given or sent to members for the purposes of these presents. This Article shall refer to all Publications published by the Association.

21. Notices to Members

- 21.1. Any notice, document or information may be given, sent or supplied by the Association to any Member either:
- (a) personally; or
 - (b) by sending it by post addressed to the Member at his address or postal address appearing in the Register of members; or
 - (c) by giving it in electronic form to a person who has by providing details of an electronic mail address agreed that the notice, document or information may be sent or supplied in that form (and has not revoked that agreement in writing); or
 - (d) subject to the provisions of the Acts, by making it available on a website.
- 21.2. A member who has failed to give a registered address shall not be entitled to receive any notice or document, but any notice or other document which the Association shall deliver or send by post to the address of such Member last known to the Association shall be deemed to have been validly given.
- 21.3. A Member present either in person or by proxy, at any meeting of the Association, shall be deemed to have received notice of the meeting and, where requisite, of the purposes for which it was called.
- 21.4. Any notice, document or information given, sent or supplied by the Association to a Member, Elected Member, Student or Firm:
- (a) by post, shall be deemed to have been given on the day following that on which the envelope containing the notice was posted. Proof that the envelope was properly addressed, prepaid and posted shall be conclusive evidence that the notice, document or information was sent;
 - (b) left at a Registered Address, shall be deemed to have been delivered on the day it was so delivered or left;
 - (c) in electronic form, shall be deemed to have been received 24 hours after it was sent; and

- (d) by making it available on a website, shall be deemed to have been received on the date on which notification of availability on the website is sent.
- 21.5. In proving delivery for disciplinary purposes it shall be sufficient to prove that the envelope containing the notice or document was properly addressed and put into the post as a prepaid letter or, in the case of a notice sent by electronic communication, to prove that it was sent.
- 21.6. Any notice to be given by the Association to Members, Elected Members, Students or Firms and not otherwise provided for by these presents shall be sufficiently given if given by advertisement in at least one leading daily national newspaper published in the United Kingdom or through the official journal of the Association (International Accountant) or on the website of the Association. Any notice given by advertisement shall be deemed to have been served at noon on the day on which the advertisement first appears.
- 21.7. If on three consecutive occasions notices or other documents have been sent to any Member, Elected Member, Student or Firm at their registered address but have been returned undelivered, such Member, Elected Member, Student or Firm shall not be entitled to receive any more notices or other publications or documents from the Association until they shall have supplied in writing to the Association a new Registered Address.
- 21.8. The accidental omission to send any notice or document to, or the non-receipt of any notice or document by, any Member entitled to receive the same shall not invalidate the proceedings at any meeting to which they relate.
- 21.9. The Association may at any time and at its sole discretion choose to give, send or supply notices, documents and information only in hard copy form or only in electronic form to some or all Members.

22. Office of Distinction

- 22.1. The Council may elect to such office and title, by a unanimous vote at a properly constituted meeting of the Council, any person who has rendered such services to the Association as in the opinion of the Council entitled him to singular distinction, and subject to these Articles, upon such terms and conditions as the Council may so determine. Any person so elected shall not be entitled to a Practising Certificate solely as a result of such election unless that person has satisfied the criteria and requirements for a Practising Certificate as set out in these presents.

23. Statutory Auditors and Recognised Professional Qualifications

- 23.1. So much of the Articles, Bye-Laws and Regulations of the Association as relate to examinations and training for and the holding of Recognised Professional Qualifications for the purposes of Part 42 of the Companies Act 2006 shall apply from the making of an order by the Secretary of State declaring one or more qualifications offered by the Association to be recognised for those purposes.

24. Amendments or Variations

- 24.1. Any amendment, annulment or variation of these Articles or The Memorandum of Association shall take effect on the date specified by the Council following approval of such amendments, annulment or variation having been given by the Members and by IAASA in accordance with the Republic of Ireland Companies (Auditing and Accounting) Act 2014 provided that the Council shall not specify a date that is more than three months after the date of the approval given by IAASA.

Bye-Laws

THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS

Made pursuant to Article 17.

1. Definitions and Interpretation

- 1.1. The definitions and interpretations for the Association's Bye-Laws are as prescribed in Article 1.

2. Membership

- 2.1. No individual shall be eligible for membership of the Association unless he has:
- (a) passed the prescribed examination or examinations;
 - (b) undertaken the prescribed period (which shall be not less than two years in any case, except as otherwise required by the Act or other such applicable law) and type or types of accountancy experience as required by the Act; and
 - (c) satisfied such other requirements as may from time to time be prescribed by the Council in regulations.
- 2.2. On admission to membership individuals shall become Members of the Association and individuals who have been Members continuously for a period of five years (or such other period as may be prescribed in regulation) shall advance automatically to Fellowship and become Fellows of the Association providing the individual meets the requirements of Membership Regulation 3 and these presents and has not confirmed to the Association in writing a desire to retain Associate membership.
- 2.3. The Council shall from time to time prescribe or provide for in regulations, without limitation to:
- (a) the conditions a person must satisfy to gain admission to membership of the Association, which conditions may prescribe the different requirements for different classes of persons who may not have satisfied the requirements of Bye-Law 2.1;
 - (b) the qualifications of the Association available to members and other persons;

- (c) the designation and designatory letters which by virtue of membership of the Association may be used;
- (d) the procedure for making application to membership of the Association and by which the Association shall determine the success of such applications and the procedure for notifying successful applicants, which may include the issuance of a certificate in such form as the regulations may prescribe;
- (e) the obligations applicable to a member, including (without limitation) the paying of admission fees and annual subscriptions, the undertaking of continuing professional development and the notifying of a member's addresses;
- (f) the maintenance by the Association of a register of members' names and addresses and of other information in relation to them as specified by the regulations;
- (g) the procedure for retiring from membership of the Association and the limitations on a member's right to retire where he is liable to disciplinary action, the circumstances in which a member shall automatically cease to be a member, and the circumstances in which and procedure whereby a former member may re-apply for admission to membership of the Association; and
- (h) such other matters relating to or connected with membership of the Association as the Council shall in its discretion consider necessary or desirable from time to time.

3. Students and Examinations

- 3.1. No person shall be registered with the Association as a Student unless he satisfies the Association that:
 - (a) he has met the entry requirements laid down in these presents, and
 - (b) he is in employment in accountancy or is a full-time student on a course of accounting or business studies approved by the Association.
- 3.2. All applications for registration as a Student with the Association shall be made to the Applications & Membership Committee on the appropriate form accompanied by such other information as the Applications & Membership Committee may from time to time determine.
- 3.3. Every person shall, upon applying for registration as a Student, sign an undertaking that he will, if registered, and so long as he is a Student, duly observe the Articles,

Bye-Laws, Regulations and Code of Ethics of the Association and any rules made thereunder.

- 3.4. Students have no liability to the Association in the event that it is wound up.
- 3.5. The regulation of matters relating to the registration of Students, courses of study to be undertaken by Students, the holding of examinations both in written and oral form and experience and training requirements shall be in accordance with the Regulations and booklets published by the Association.
- 3.6. Students are subject to the Association's relevant Disciplinary Proceedings including in relation to its examinations.
- 3.7. Any addition, amendment or revision of Bye-Laws affecting the examinations, or conditions relating thereto, shall become effective on a date specified by the Council following approval by IAASA provided that the Council shall not stipulate a date which is more than three months after the date of the approval by IAASA and subject to at least one month's notice of such additional amendment or revision having been given to all registered Students.
- 3.8. The Council shall from time to time issue regulations to specify:
 - (a) the conditions a person must satisfy to become and remain a registered student, which conditions may prescribe different requirements for different classes of persons, which may include a requirement that he undertake to be bound by the Articles, Bye-Laws, Regulations and Code of Ethics and all applicable rules made hereunder;
 - (b) the way in which a registered student may describe himself whilst being a registered student, and the qualifications of the Association available to registered students and other persons;
 - (c) the procedure for making application to become a registered student and by which the Association shall determine whether or not to accept such application and the procedure for notifying successful applicants, which may include the issuance of a certificate in such form as the regulations may prescribe;
 - (d) the examinations of the Association and all matters related thereto, including (without limitation) as to the appointment of examiners;
 - (e) the provision of practical training and the authorisation of persons to provide such training;
 - (f) the obligations applicable to a registered student, including (without limitation) the payment of fees, exam fees and annual subscriptions, the

restrictions on description applicable to him and on the work that may be undertaken by him and the notification of the Association of his address and occupation;

- (g) the maintenance by the Association of a register of registered students' names and addresses and of other information in relation to them as specified by the regulations;
- (h) the procedure for seeking removal from the register of registered students and the circumstances in which a registered student shall automatically cease to be a registered student, and the circumstances in which and procedure whereby a former registered student may re-apply to become a registered student; and
- (i) such other matters relating to or connected with registered students as the Council shall in its discretion consider necessary or desirable.

4. Entrance Fees

- 4.1. Persons admitted as Fellows without first becoming Associates shall pay on admission an entrance fee of an amount determined by the Council.
- 4.2. Associates admitted as Fellows shall pay on such transfer a sum determined by the Council.
- 4.3. Persons admitted as Associates shall pay on admission an entrance fee of an amount determined by the Council.
- 4.4. Persons admitted as Supervised Members shall pay on admission an entrance fee of an amount determined by the Council.
- 4.5. Fees are reviewed on an annual basis by the Council and made available publicly.

5. Annual Subscriptions and Payments

- 5.1. The Council shall have power, from time to time, to determine in accordance with Article 17 the amounts required to be paid by the respective categories and classes of members in respect of:
 - (a) the annual subscriptions;
 - (b) a Practising Certificate;
 - (c) a Recognised Professional Qualification Certificate

- 5.2. Until that power is exercised on and from 1 October each year the following members shall be liable to pay subscriptions annually:
- (a) Members being Fellows;
 - (b) Members being Associates;
 - (c) Members being Supervised Members;
 - (d) Members being Academic Fellow Members.
- 5.3. The Council may at its discretion, on the application of any Member, reduce the subscription payable for any year by such Member if the said Member has retired from practice and all other business activities or from employment.
- 5.4. On or before the first day of October in each year every Member shall, if required by the Council make a return to the Association showing whether he is in public practice as an accountant or an accountant and auditor or not. This return shall be in such form as the Council may from time to time prescribe.
- 5.5. The Council shall have authority to waive the annual subscription payable by a Fellow in respect of a person who was, at the date of amalgamation, an Honorary Member of the Association.
- 5.6. A full year's subscription shall be payable on application for membership.
- 5.7. Each Associate, on being admitted as a Fellow, shall pay, as the additional subscription due from him as a Fellow for the current year, the difference between his yearly subscription as an Associate and as a Fellow.
- 5.8. All subscriptions, other than subscriptions payable on admission, shall be payable in advance on the first day of October in each year, being the day on which the subscription year of the Association shall commence.
- 5.9. A Member applying for a Practising Certificate shall pay a fee for the issue of such certificate and shall also pay an annual registration fee so long as the same is noted on the Register, of an amount determined by the Council.
- 5.10. An individual applying for a Supervised Member Certificate shall pay a fee for the issue of such certificate and shall also pay an annual registration fee so long as the same is noted on the Register, of an amount determined by the Council.
- 5.11. A Member applying for a certificate that he holds a Recognised Professional Qualification from the Association for the purposes of Part 42 shall pay a fee in relation to that application and shall also pay an annual fee so long as the same shall be noted on the Register, of an amount determined by the Council, and other such respective sums as shall for the time being be prescribed by the Council.

6. Ethics and Conduct

- 6.1. The Council shall maintain a Code of Ethics to be followed by all Members, Elected Members, Students and Firms, and have adopted the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).
- 6.2. Any breach of the Code shall render a Member, Elected Member, Student or Firm liable to disciplinary action under the Association's disciplinary procedures.

7. Disciplinary Proceedings

- 7.1. The Council shall, from time to time, prescribe in Regulations the procedures (including relating to the hearing of appeals) whereby a person subject to these presents may be disciplined and as to all other matters relating thereto.
- 7.2. Such regulations shall provide that such a person shall have the right to be given notice of any disciplinary proceedings which it is proposed should be brought against him, the right to be represented at any such disciplinary proceedings, the right to call and cross-examine any witness at such disciplinary proceedings and a right of appeal against any disciplinary order made against him.
- 7.3. In addition, such regulations shall provide that any committee able to make or confirm a disciplinary order shall include a person or persons who are not members of the Association and shall not be quorate in the absence of such a person.
- 7.4. Where the Association participates with other professional accountancy bodies in a disciplinary scheme or agreement, such regulations shall provide for the referral of relevant cases by the Association to and in accordance with such scheme or agreement and all other matters relevant thereto.
- 7.5. In particular (but without limitation) such regulations may prescribe or provide for:
 - (a) the committees or the individuals to whom the Council may delegate the responsibility of determining whether or not Member, Elected Member, Firm or Student is to be disciplined;
 - (b) the making of disciplinary Orders (including consent orders);
 - (c) the method, timing and terms of appointment, constitution, quorum, powers and responsibilities of each such committee or individual to whom the Council delegates responsibility;

- (d) the procedures and process to be followed by each such committee and in the preparation of cases to be heard by any of them, the manner in which cases may be presented to them and the circumstances in which matters are to be referred to them for consideration;
 - (e) the orders which may be made against a person in respect of whom a complaint is proved in whole or in part; which without limitation may include an order that a person be excluded from membership, that any certificate issued by the Association to the person be withdrawn and that a fine be imposed on the person, which may be unlimited in amount, or be up to such maximum amount as from time to time may be prescribed by such regulations, and the times at which such disciplinary orders are to become effective;
 - (f) disciplinary proceedings (including the hearing of appeals) in respect of students where the alleged misconduct relates to examinations;
 - (g) the circumstances in which appeals against a disciplinary order may be brought and the procedures for dealing with such appeals;
 - (h) the making and enforcing orders as to costs, which may provide for different orders in respect of individuals and firms; and
 - (i) the publication of disciplinary orders in those cases where a complaint is found proved in whole or in part.
- 7.6. Any such Regulations as prescribed pursuant to Bye-Law 7.1 shall be in accordance with relevant legislation and regulatory requirements as demanded by the Association's statutory recognition.

8. Liability to Disciplinary Action

- 8.1. Every Member, Elected Member, Firm and Student shall be liable to disciplinary action in the circumstances set out in these presents.
- 8.2. A Member, Elected Member, Firm and Student shall be liable to disciplinary action in accordance with these presents in force at the time the matters complained of take place, but all disciplinary proceedings shall be conducted in accordance with the presents in force at the time of such proceedings.
- 8.3. Subject to paragraph 8.4 of this Bye-Law, disciplinary proceedings in respect of a Member, Elected Member, Firm or Student shall be regulated by these Articles, Bye-Laws and any Regulations made thereunder.
- 8.4. It shall be the duty of every Member, Elected Member, Firm or Student at all times to co-operate with the Investigations, Disciplinary and Appeals Committees appointed

pursuant to these presents and it shall be the duty of every Member to use his best endeavours to ensure that every Firm of which he is a member shall do likewise.

9. Committees of the Council

9.1. The Council at their first meeting after the Annual General Meeting shall proceed to the appointment of the following Committees, or such other Committees as may be determined by the Council:

- (a) Finance;
- (b) Applications & Membership;
- (c) Qualifications;
- (d) Law and Parliamentary;
- (e) Technical Committee;
- (f) Practice Compliance Committee;
- (g) Practice Compliance Appeals Committee.
- (h) Investigations;
- (i) Disciplinary;
- (j) Appeals;
- (k) Regulatory Oversight Committee.

9.2. These Committees shall act for the ensuing year. The Council may also appoint any special Committees, or one or more of their number from time to time, to carry out any special duties delegated to them, under the direction of the Council.

9.3. Any business unfinished by a Committee for each session shall be reviewed by the incoming Committee and a vote taken to decide on a course of action. Where business is unfinished by the Practice Compliance, Practice Compliance Appeals, Investigations, Disciplinary or Appeals Committee, this business shall be continued by the incoming Committee without the need for a vote to be taken.

9.4. Each Committee shall consist of at least five members, or such other number as the Council may deem necessary. The membership of the Investigations, Disciplinary and the Appeals Committee shall be as prescribed by these presents. Unless otherwise determined by the Council or the specific rules of a particular Committee as prescribed by these presents three shall form a quorum for all Committees of the Council.

- 9.5. Committees shall meet as and when required for the transaction of business.
- 9.6. The Chairman of each Committee shall be appointed in accordance with these presents where appropriate and otherwise the members of each Committee thereof shall appoint by poll one of their members to act as Chairman for the ensuing year.
- 9.7. The Chairman and Vice-Chairman of the Council for the time being shall be ex-officio members of all Committees except the Investigations Committee, the Disciplinary Committee, the Appeals Committee, the Practice Compliance Committee and the Practice Compliance Appeals Committee.
- 9.8. The Council shall have the power to fill any casual vacancies in the Committees of the Council, and to suspend or remove for misconduct any member provided always that non-accountants shall be in the majority in respect of the Investigations, Disciplinary and Appeals Committees.
- 9.9. All Committees shall exercise such powers and perform such duties as are hereinafter provided, or as may be vested in or assigned to them by the Council from time to time, and all matters dealt with shall be reported to the Council at the next succeeding meeting of the Council.

10. Powers and Duties of Committees Defined

- 10.1. Subject to the control, approval, and confirmation of and by the Council, the powers and duties of the undermentioned Committees shall be as follows:

- (a) Finance Committee

To deal with all matters relating to:

- i. the accounts and financial affairs of the Association;
- ii. the sanctioning of its expenditure, and drawing and signing cheques therefore;
- iii. the investment of funds of the Association;
- iv. ensuring sufficient funds are maintained;
- v. enabling the development, delivery and award of the qualifications.

- (b) Applications and Membership Committee

To deal with all matters relating to:

- i. the form and content of applications to become Students, Associates, Fellows, Supervised Members and Academic Fellow Members of the Association;
- ii. applications for admission as Students of the Association;
- iii. applications for admission as Associates;
- iv. applications for admission as Fellows;
- v. applications for admission as Supervised Members;
- vi. applications for admission as Academic Fellow Members;
- vii. the granting of practising certificates in respect of public practice as an accountant providing authorisation for a Member or a Firm; and
- viii. applications for re-admission as a Member of the Association.

The Committee to be empowered:

- ix. to take such reasonable action as it considers appropriate and necessary to satisfy itself as to the entitlement of a Student or Member to admission to the Association and his compliance with these presents in obtaining such admission and to approve such applications and admissions. The Committee shall submit a report on every such application approved to the Council at the next succeeding meeting of the Council.
- x. to deal with all matters relating to new Practising Certificates;
- xi. to take such reasonable action as it considers appropriate and necessary to satisfy itself as to the entitlement of a Member to a Practising Certificate;
- xii. to agree the form and content of certificates in respect of Practising Certificates including any related application forms.

(c) Qualifications Committee

To deal with all matters relating to:

- i. the Examinations of the Association including written examinations and oral tests, study requirements, the conduct of examinations, subjects of examinations, framing of and alterations in syllabus, monitoring of standards and compliance with statutory requirements, pass lists, certificates in respect of examinations and as to holding the Recognised Professional Qualification;

- ii. practical training, including approval of persons to provide training and approval and monitoring of training including for purposes of Part 42;
- iii. reviews of examination and oral test results and agreement of and subsequent reporting to Council of recommendations received from the Exam Board and;
- iv. granting, suspending or removing approval for colleges or institutions to operate as an approved study provider for the Association offering the Professional Qualification or other qualifications of the Association;
- v. the recommendation to the Council to employ any part of the funds of the Association in the provision of prizes, medals, scholarships, exhibitions or rewards in connection with the examinations held by the Association;
- vi. the monitoring of the compliance by Members with the Association's Continuing Professional Development Regulations and Requirements.

The Committee to be empowered:

- vii. to agree the form and content of certificates in respect of examinations and qualifications, and of approved study providers of the Association and any related application forms.

(d) Law and Parliamentary Committee

To deal with all matters relating to:

- i. Bills and Proposals before Parliament or legislative assembly in any jurisdiction, and all proposals made or actions taken by any Government Department, Company, Firm, Person or Persons, affecting the interests of the members of the Association as a whole;
- ii. legal matters.

(e) Technical Committee

- i. to monitor and discuss key technical developments in the accountancy profession and the financial world;
- ii. to formulate the Association's views on government consultation documents and comment on the regulation of the profession; and
- iii. to ensure relevant, up to date technical information is brought to the attention of Members and Students of the Association on a timely basis

together with guidance and interpretation regarding application and implementation.

(f) Practice Compliance Committee

To deal with all matters concerning:

- i. the monitoring of the compliance by Members and Firms in their public practice with the Association's Articles, Bye-Laws, Regulations and Code of Ethics, relevant accounting and auditing standards and relevant regulatory and legal requirements;
- ii. provision of returns, statements and information necessary for monitoring the Members' public accounting and reporting work;
- iii. the monitoring of members in industry, commerce, public service or employed in public practice.

The Committee can require remedial action to be taken by a Member, or a Firm in the case of non-compliance with a Regulatory Requirement. Where there is failure to meet a Regulatory Requirement the Committee in addition to requiring remedial action to be taken within a specified period can:

- iv. impose a penalty by way of a fine;
- v. suspend a Practising Certificate pending the outcome of disciplinary proceedings;
- vi. revoke a Practising Certificate pending the outcome of disciplinary proceedings;
- vii. impose a condition or restriction relating to a Practising Certificate, and/or
- viii. refer the failure to the Disciplinary Committee for further action.

Where the Committee decides to suspend a Practising Certificate such suspension shall be limited to a period of six months unless renewed by the Disciplinary Committee.

(g) Practice Compliance Appeals Committee

To hear all appeals resulting from decisions taken by the Applications and Membership Committee and the Practice Compliance Committee relating to:

- i. the granting and holding of a Practising Certificate;

- ii. the monitoring of Members and Firms concerning compliance with the Bye-Laws, Articles, Regulations and Code of Ethics;
- iii. the provision of returns, statements and information relating to monitoring.

The Committee is empowered:

- iv. to uphold decisions taken by the appropriate Committee; or
- v. to refer a decision back to the appropriate Committee with a recommendation for consideration.

(h) Regulatory Oversight Committee

To deal with all matters concerning:

- i. scrutiny, oversight and review of the Association's regulatory requirements as a recognised supervisory body under Schedule 3 of the Money Laundering (Information on the Payer) Regulations 2017 as amended from time to time.

The Committee to be empowered:

- ii. to make recommendations to the Council to address areas of weakness or highlight areas of good practice relating to AIA's AML supervision.

11. Exam Board

11.1. The Council shall appoint an Exam Board to operate in line with terms of reference agreed by the Council and amended at its discretion from time to time, consisting of members of the Council and such other qualified persons as the Council may from time to time appoint. The members of the Exam Board shall hold office at the discretion of the Council and shall be paid out of the funds of the Association such remuneration as the Council from time to time shall decide.

11.2. The Exam Board shall be responsible for:

- (a) reviewing candidate profiles and exam scripts relating to the AIA Examinations taken in the previous session;
- (b) receiving marks for each candidate and reviewing performance;
- (c) suggesting recommendations where necessary to the Qualifications Committee any adjustments to be carried out in line with agreed policies and procedures;

- (d) recommending to the Qualifications Committee whether any candidate should be permitted to pass any Paper by compensation in accordance with any policy as agreed by the Qualifications Committee and the Council and amended from time to time;
- (e) making recommendations to the Qualifications Committee in respect of any candidate who has notified the Association of any request for special consideration in respect of one or more Examination Papers;
- (f) recommending to the Qualifications Committee whether all candidates' marks in respect of any Examination Paper should be subject to some adjustment to reflect any exceptional circumstances relating to the examination in that Examination Paper, including but not limited to any ambiguity or error in the examination materials for that Examination Paper;
- (g) considering any reports of examination irregularities and making such recommendations to the Qualifications Committee as the Exam Board thinks fit to address such irregularities.

12. Parliamentary Fund

- 12.1. The Council may create a fund to be called the Parliamentary Fund, which fund shall be applied in or towards payment of the costs, charges and expenses incurred by the Association in promoting or joining with any other Association, Institution, Corporation or Society of Accountants in the promotion of or in taking any proceeding in support of any Act or Bill in Parliament, Royal Charter, Provisional or Statutory Order, Order-in-Council or Letters Patent or other authority having for its object the uniting of the members of the profession into one general body or any other object calculated to benefit the members of the Association in any part of the world or the profession as a body or in opposing any Bill in Parliament or application for any Charter or Provisional or Statutory Order, Order-in-Council, Letters Patent or other authority having for its objects or containing any provisions which they may consider inimical or prejudicial to the interests of the members of the Association in any part of the world.
- 12.2. The Council may for the purpose of creating and maintaining the Parliamentary Fund from time to time make a levy on each member of the Association of such sum or sums as they may determine.

13. Practising Certificates

- 13.1. The Council shall from time to time make all such regulations as it shall consider necessary or desirable in connection with the carrying on of public practice or other activities in the United Kingdom or elsewhere. Such regulations may (without limitation) prescribe or provide for:
- (a) the restrictions applicable to members and other individuals and firms who are subject to the regulations in the conduct of public practice, which restrictions may include restrictions on a member being connected with a firm which, or another person in relation to which, carries on public practice, and the meaning or meanings of public practice for this purpose and the purposes of these presents;
 - (b) the qualifications which a person subject to the regulations must hold to be eligible to hold a practising certificate;
 - (c) the conditions for the grant, suspension, withdrawal, application of conditions to and renewal of practising certificates, which may provide for different types of certificate to be issued to different classes of person, the manner in which an application for a practising certificate shall be made, the procedure for appealing against a decision on such an application, the period of time for which a practising certificate shall remain valid and the fees payable for the issue or renewal of a practising certificate;
 - (d) the rules applicable to the holder of a practising certificate, including without limitation to the conduct of public practice and related activities;
 - (e) the acceptance of undertakings or agreements from persons other than members of the Association as a condition for the issuance of a practising certificate to them or to another person;
 - (f) the monitoring of compliance by persons subject to the regulations with the requirements of the regulations; and
 - (g) any other matters as the Council shall from time to time at their discretion determine.

14. Continuing Professional Development

- 14.1. The Association shall make regulations that members are required to adhere to in relation to continuing professional development from time to time.
- 14.2. Except for those requirements as may be provided in regulations a Member shall:

- (a) keep under review their needs for training and development having regard to the professional and other work they undertake;
- (b) where such a review identifies a specific need for training or development act promptly to meet such need; and
- (c) certify annually to the Association compliance and, if requested by the Association, provide such evidence of compliance as may be required.

15. Certificates or Diplomas of the Association

- 15.1. The Association may offer certificates or diplomas based on a special accountancy discipline or disciplines.
- 15.2. Entry requirements, fees and regulatory and administrative arrangements in relation to such examinations shall be determined by the Association.

16. Publications

- 16.1. The Council shall from time to time in its discretion publish a list of the Members and Elected Members and also the Bye-Laws and Regulations of the Association for the time being in force, and any regulations or guidelines for the time being in force, lists of Members of the Council and Officers, and such other matters as the Council shall consider it desirable to publish, and copies may be sold at such reasonable price as the Council shall determine.

17. Branches and District Centres

- 17.1. When in the opinion of the Council, the number of Members residing in any area is sufficient to warrant the formation of a Branch or District Centre of the Association, the Council may take such steps as they consider necessary to form such a Branch or District Centre.
- 17.2. No Branch or District Centre shall be formed without the previous consent of the Council of the Association.
- 17.3. On formation, and at all times during their existence, all Branches and District Centres shall conduct their affairs in accordance with regulations made by the Council from time to time.
- 17.4. The Council shall have the right to dissolve a Branch or District Centre for any of the following reasons, viz:

- (a) non-compliance with the regulations laid down by the Council; or
 - (b) if the size of the membership of such Branch or District Centre is such as in the opinion of the Council to warrant dissolution; or
 - (c) if for any reason the Council deems it desirable in the interests of the Association generally.
- 17.5. All expenses of Branches or District Centres shall be borne by such Branch or District Centres, but the Council may make grants out of the funds of the Association towards the formation and maintenance of Branches or District Centres of such amounts as in their opinion are reasonable, having further regard to the activities of such Branches or District Centres in connection with the furtherance of the objects of the Association.

18. Representatives

- 18.1. The Council may from time to time appoint Representatives of the Association for any District in Great Britain and Northern Ireland, or for any country or territory overseas, with such powers and duties, and for such period as the Council may determine. A Representative of the Association shall ipso facto vacate office on ceasing to be a Member of the Association, or on the formation of a duly constituted Branch or District Centre for the area for which he was appointed but shall nevertheless be eligible for election as an officer or member of the committee of such Branch or District Centre. The Council shall have the power to remove or suspend any Representative, or to fill any casual vacancy.
- 18.2. All monies due to the Association in respect of subscriptions, fees or other payments which may be received from time to time by any Branch or District Centre or Representative shall be remitted forthwith to the Head Office of the Association.

19. Terms of Employment of Chief Executive

- 19.1. The Chief Executive of the Association shall be appointed by the Council upon such terms, and subject to such conditions, as the Council shall deem fit, subject to the Memorandum and Articles of the Association and for such purpose the Council may enter into an agreement containing the terms, which shall be sealed with the Seal of the Association.

20. Certificates

- 20.1. A Practising Certificate and a Certificate of Recognised Professional Qualification shall remain the property of the Association and the holder shall be bound to return any such certificates to the Association on his ceasing to be a Member of the Association for any reason whatsoever or in the event of their being withdrawn in accordance with the Articles, Bye-Laws and Regulations.

21. Financial and Subscription Years

- 21.1. The Association's financial year shall commence on the first day of October in each year.
- 21.2. The Association's subscription year shall commence on the first day of October in each year.

22. Other Regulations, Policies and Procedures

- 22.1. The Association may make, vary or rescind regulations, policies or procedures from time to time in relation to these Bye-Laws or in relation to any other matter which the Council considers necessary or desirable.

Regulations

The AIA Regulations must be read in conjunction with each other, and cross referenced with the Articles of Association and Bye-Laws, together which form the AIA Constitution.

Regulations may affect members, students and other individuals or entities in different ways depending on the application of other regulations to those members, students or individuals. Readers should be aware that regulations are not always cross referenced with each other.

Every person shall, upon applying for admission as a Member sign an undertaking that he will, if admitted, and so long as he is a Member, duly observe the Articles, Bye-Laws, the Code of Ethics and any rules and regulations made by the AIA Council.

AIA Regulations are agreed by the AIA Council and may be changed from time to time by resolution of the Council.

Membership Regulations

1. Citation, commencement and application

- 1.1. These regulations may be cited as The Association of International Accountants' Membership Regulations 2022.
- 1.2. These regulations as amended shall come into force on 7 March 2022.
- 1.3. These regulations shall apply to all persons who are subject to these presents or who otherwise agree to be bound by them.
- 1.4. These regulations may be amended by resolution of the Council.

2. Definitions and Interpretation

- 2.1. The definitions and interpretations for these Regulations are as defined and set out in Article 1.

3. Fellows

- 3.1. No person shall be eligible for admission as a Fellow of the Association unless he has in accordance with the requirements of the Articles, Bye-Laws and Regulations for the time being in force passed the Professional Examination of the Association or the Diploma in Professional Accountancy (except as otherwise provided by these Articles, Bye-Laws and Regulations) and has provided to the satisfaction of the Council that in addition to being eligible for admission as an Associate under Regulation 4.1 (if not already so admitted) he has for not less than five years:
 - (a) been in public practice as an accountant or auditor; or
 - (b) served as a Senior Accountant;and is in all respects a fit and proper person to be admitted.

4. Associates

- 4.1. No person shall be eligible for admission as an Associate of the Association unless he has in accordance with the requirements of the Articles, Bye-Laws and Regulations for the time being in force passed the Professional Examination of the

Association or the Diploma in Professional Accountancy (except as provided by these presents) and also is at the date of his application:

- (a) in public practice as an accountant; or
- (b) serving as an accountant in industry and commerce or in the public service or is occupying a professional position which in the opinion of the Council is equivalent thereto;

and has had not less than three years approved accountancy experience (whether obtained before or after, or partly before and partly after, the passing of the examination), and is otherwise and in all respects a fit and proper person to be so admitted.

5. Supervised Members

- 5.1. The Council, at its discretion subject to the restrictions in the Articles and Bye-Laws, may elect any person to be a Supervised Member of the Association for purposes of supervision under the Anti Money Laundering Regulations in line with statutory requirements in force at the time, notwithstanding that he may not be eligible under the foregoing Regulations to be admitted as a Fellow or Associate of the Association and he is in all respects a fit and proper person to be so elected.
- 5.2. Supervised Members shall be eligible to:
 - (a) use the facilities of the Association;
 - (b) use the designatory letters prescribed in these Regulations;
- 5.3. Supervised Members shall not be eligible to:
 - (a) have the power to vote at any meeting of the Association;
 - (b) take part in the Association's management;
 - (c) use the designation "International Accountant"
 - (d) receive copies of the accounts.
- 5.4. Any person elected to membership under this Regulation shall be subject to the Association's terms relating to disciplinary proceedings and be bound by the Code of Ethics; and
- 5.5. Any person elected to membership under this Regulation shall be bound to observe these presents.

6. Honorary Members

- 6.1. The Council, at its discretion, subject to the restrictions in the Articles and Bye-Laws, may elect any person to be an Honorary Member of the Association, notwithstanding that such person may not be eligible under the foregoing Articles and Bye-Laws to be admitted as a Fellow or Associate of the Association.
- 6.2. Honorary Members shall be entitled to all the privileges of membership of the Association, but shall not:
 - (a) have the power to vote at any meeting of the Association;
 - (b) take part in the management of the Association;
 - (c) in such capacity be entitled to a Practising Certificate; or
 - (d) be required to pay an entrance fee or annual subscription.
- 6.3. Any person elected to membership under this Regulation shall be subject to the Association's terms relating to disciplinary proceedings.

7. Academic Fellow Members

- 7.1. The Council, at its discretion subject to the restrictions in the Articles and Bye-Laws of the Association may elect any person as an Academic Fellow Member notwithstanding that he himself is not eligible to be admitted as a Fellow of the Association.
- 7.2. Academic Fellow Members shall be entitled to all the privileges of membership of the Association, save that they shall not:
 - (a) have the power to vote at any meeting of the Association;
 - (b) take part in the management of the Association;
 - (c) in such capacity be entitled to a Practising Certificate;
 - (d) be required to pay an entrance fee.
- 7.3. Any person elected to membership under this Regulation shall be subject to the Association's terms relating to disciplinary proceedings.

8. Election to Membership by Council

- 8.1. The Council, at its discretion subject to the restrictions in these presents may grant Membership as an Associate or Fellow to any individual provided that individual:

- (a) has been invited by the Council to become a member of the Association; and
- (b) satisfies the Council as to his general character and suitability and is a fit and proper individual; and
- (c) has, in the opinion of the Council, made a significant contribution to the knowledge or practice of accountancy; or
- (d) will, in the opinion of the Council, bring benefits to the Association and/or its membership through his being granted membership; and
- (e) is in public practice as an accountant; or
- (f) is serving as an accountant in industry and commerce or in the public service or is occupying a professional position which in the opinion of the Council is equivalent thereto;

and is otherwise and in all respects a fit and proper person to be so admitted.

9. Applications for Admission and Election of Members

- 9.1. All applications for admission to membership shall be submitted on the prescribed form to the Applications & Membership Committee, accompanied by such other information as the Applications & Membership Committee may, from time to time, determine.
- 9.2. The Applications & Membership Committee shall have the duty to enquire into the qualifications, professional experience, standing and general character of every applicant; the Application & Membership Committee's decision in each case shall be reported to the Council.
- 9.3. No applicant shall be admitted as a Member (except as Elected Members as hereinbefore provided) unless he has first satisfied the Applications & Membership Committee and the Council as to his professional status.
- 9.4. The Council's decision in all matters relating to membership shall be final.

10. Establishing Fit and Proper Status

- 10.1. The Applications & Membership Committee shall only grant admission to membership of the Association to applicants who in all respects are considered a fit and proper person to be so admitted.
- 10.2. In determining whether a person is fit and proper, the Applications & Membership Committee may without limitation, take into account whether that individual has:

- (a) been convicted of a criminal offence; or
 - (b) been the subject of a disciplinary order made by the Association or another professional body; or
 - (c) been or is the subject of an investigation in respect of his conduct; or
 - (d) breached an applicable Article, Bye-Law or Regulation of the Association; or
 - (e) fallen within any of the criteria set out in Regulation 10.4.
- 10.3. The Applications & Membership Committee may take into account all current and past matters which impact on an individual's fitness and propriety.
- 10.4. In the case of individuals, the criteria referred to in Regulation 10.2(e) are whether the person is or has been:
- (a) at any time bankrupt, signed a trust deed for creditors or entered into a deed of arrangement, scheme or composition in respect of his financial affairs; or
 - (b) removed from the office of liquidator, trustee, administrative receiver, administrator or supervisor; or
 - (c) the subject of a disqualification order or disqualification undertaking made under the Company Directors Disqualification Act 1986 of the United Kingdom; or
 - (d) the subject of a bankruptcy restriction order or bankruptcy restriction undertaking under the Insolvency Act 1986 of the United Kingdom; or
 - (e) excluded from or refused membership of a professional body on disciplinary grounds; or
 - (f) found to have failed to ensure that the experience and competence of his employees and practice associates are adequate; or
 - (g) a patient under the Mental Health Act 1983 of the United Kingdom; or
 - (h) the equivalent of or similar to the above criteria under the corresponding legislation of any country or jurisdiction.
- 10.5. In determining whether any person is fit and proper for the purposes of this Regulation, the Applications & Membership Committee may take into account any matter which relates to him and any matter relating to any person who is or will be employed by or associated with him for the purposes of or in connection with public practice.

- 10.6. In determining whether a Member is fit and proper to be granted a practising certificate the Applications & Membership Committee shall use the conditions laid out in Public Practice Regulation 6.

11. Power to Grant or Refuse Admission

- 11.1. The Council shall consider the Applications & Membership Committee's decisions thereon, and shall, in their absolute discretion, determine as to the conditions upon which any applicant shall be admitted to membership, or they may adjourn the consideration of any application or postpone the election of any applicant, or they may altogether refuse to admit any applicant to membership.
- 11.2. The Council's decision in all matters relating to admission to membership shall be final.
- 11.3. The Council shall inform the applicant of the grounds for refusing admission only if requested to do so by the candidate in writing.

12. Re-admission to Membership

- 12.1. In the case of a person whose membership has ceased under Regulation 22.1 or Regulation 22.4 of these Regulations, the Applications & Membership Committee shall consider the application for re-admission; and make a decision regarding his re-admission and in each case the decision shall be reported to the Council.
- 12.2. Any former Member or Elected Member may apply for re-admission provided that any outstanding sums due to the Association, including any fine or costs imposed by a disciplinary order, have been paid.
- 12.3. No former Member or Elected Member who has had a disciplinary order made against them excluding them from membership may apply for re-admission until after the later of:
- (a) the expiry of twelve months after the effective date of the disciplinary order; or
 - (b) where the disciplinary order prohibits the former Member or Elected Member from applying for re-admission to membership for a specified period, the expiry of such period.
- 12.4. The Council shall consider the Applications & Membership Committee's report and may decide to refuse to overturn the decision to re-admit any individual upon such conditions as they may think fit.

- 12.5. The Council shall inform the applicant of the grounds for refusing admission only if requested to do so by the applicant in writing.

13. Admission of Persons Holding Qualifications of Other Bodies

- 13.1. The Applications & Membership Committee shall take such reasonable action as it considers appropriate and necessary to satisfy itself as to the entitlement of an applicant for admission to Membership of the Association as a Fellow or Associate.
- 13.2. The Applications & Membership Committee's decision shall in each case be reported to the Council.
- 13.3. The Association shall, on such terms as it considers appropriate, admit to Membership of the Association any person who has qualified by examination as a member of another professional body of accountants which is in the opinion of the Applications & Membership Committee equivalent to that of the Association, and has had not less than three years' approved accountancy experience, provided that a person admitted to membership under this Regulation shall not be entitled to be granted a certificate by the Association that he holds a Recognised Professional Qualification for the purposes of Statutory Audit.

14. Transfer to Fellowship

- 14.1. An individual who has been a Member continuously for a period of five years (or such other period as may be prescribed) shall advance automatically to Fellowship and become a Fellow of the Association and may denote his Fellowship by the use of the professional designation prescribed in these presents, providing the member has not breached the requirements of the Association during that time and he meets the requirements prescribed in these presents.
- 14.2. For members joining the Association before 1 January 2013 all applications for transfer from Associateship to Fellowship of the Association shall be assessed by the Applications & Membership Committee and shall be made on the prescribed form.
- 14.3. From time to time details of Members meeting the requirements of Regulation 14.1 shall be submitted to the Applications & Membership Committee whose duty it shall be to enquire into the eligibility of each individual under the conditions laid down by these presents.
- 14.4. The Applications & Membership Committee's decisions shall in each case be reported to the Council.

- 14.5. The Council upon consideration of the decisions of the Applications & Membership Committee shall in their absolute discretion, whether automatic or otherwise, determine as to the conditions upon which any transfer shall be made or they may postpone or prevent any transfer.
- 14.6. The Council shall inform the Member of the grounds for refusing admission only if requested to do so by the applicant in writing.

15. Entrance Fee

- 15.1. Every application for membership shall be accompanied by the Entrance Fee, as laid down by Bye-Law 4, which fee is non-returnable.

16. Designation and Distinctive Letters

- 16.1. Any person who is admitted to membership of the Association shall, whilst he remains a Member of the Association, be entitled to use the professional style or designation of "International Accountant" as indicating that he is a Member of the Association and to use after his name, in the case of a Fellow the initials FAIA or, in the case of an Associate, AAIA.
- 16.2. Any person who is elected to be an Honorary Member of the Association shall be entitled to use after his name the initials FAIA (Hon).
- 16.3. Any person who is elected to membership of the Association as a Supervised Member shall not use the professional style or designation of "International Accountant", but shall be entitled to use after his name the initials SAIA.
- 16.4. Any person who is elected to membership of the Association as an Academic Fellow Member shall be entitled to use after his name the initials FAIA (Acad).
- 16.5. An Elected Member may make reference to his membership of the Association as an Honorary Member, Supervised Member or Academic Fellow Member as the case may be but may not represent himself as, or permit or allow himself to be held out in any way as, a qualified Member (i.e. Associate or Fellow Member) of the Association. An Elected Member who holds himself out or permits or allows himself to be held out as a qualified Member shall be liable to disciplinary action.
- 16.6. Subject to Membership Regulation 16.5 a member who is elected to membership prior to 31 January 2009 whether as an Affiliated Member or Academic Fellow Member and is permanently resident in the Republic of Ireland on that date may refer whilst in the Republic of Ireland to his status as an Affiliated Member or Academic Fellow Member of the Association.

- 16.7. An Elected Member who does not meet the requirements set out in these presents will not be entitled to refer to his status as an Affiliated Member or Academic Fellow Member of the Association whichever is applicable whilst in Ireland.
- 16.8. An Elected Member who is in breach of Membership Regulation 16.7 shall be liable to disciplinary action.
- 16.9. In the context of these Regulations permanently resident means residency of at least six months in the Republic of Ireland prior to 31 January 2009 with an intention to remain resident in the Republic of Ireland.
- 16.10. No person shall after 31 January 2009 be elected to membership as an Affiliated Member or an Academic Fellow Member in the Republic of Ireland.
- 16.11. A Member of the Association practising in partnership with any person not a Member of the Association under the title of a firm shall not use after the title of that firm or describe the firm in any way whatsoever as “International Accountants” unless the majority of the partners are Members of the Association.

17. Certificate of Membership

- 17.1. Every member shall on admission to membership be entitled to a Certificate of Membership under the Seal of the Association, but such certificate shall at all times remain the property of the Association, and shall be returned to the Association on demand.
- 17.2. In the event of the resignation, removal, exclusion or suspension of a Member, or of a Member ceasing to be a Member for any other cause, the Certificate of Membership then held by him shall be delivered up to the Association to be cancelled or retained during his suspension.

18. Register of Members

- 18.1. The Association shall maintain the Register incorporating the members' names and addresses and which shall record:
- (a) those Members being Fellow, Associate or Academic Members;
 - (b) those Members holding a Practising Certificate authorising them to engage in public practice;
 - (c) those Members who have been granted by the Association a Recognised Professional Qualification for the purposes of Part 42;

- (d) those Members holding a Practising Certificate issued by a Recognised Supervisory Body for the purposes of Part 42 entitling them to practise as Statutory Auditor in the UK;
- (e) those members who are Elected Members.

but shall not record

- (f) those Elected Members who are Honorary Members.

- 18.2. The Association may register members on the appropriate register held by the Association if the Association is satisfied that the member complies with these presents as appropriate.
- 18.3. The Register as it relates to Members holding a Practising Certificate of whatever nature is held at the head office of the Association and shall be open to public inspection at all reasonable business hours.

19. Member Obligations

- 19.1. Every person shall, upon applying for admission as a Member, sign an undertaking that he will, if admitted, and so long as he is a Member, duly observe the Articles, Bye-Laws, Regulations, the Code of Ethics and any rules made thereunder and that he will not use the professional style or designation of "International Accountant" or such other designation as may be adopted by the Members in General Meeting or any designatory letters denoting Membership except while a member of the Association.
- 19.2. Every person shall before accepting election as an Elected Member sign an undertaking that so long as he is an Elected Member he will duly observe the Articles, Bye-Laws, Regulations, the Code of Ethics and any rules made thereunder and that he will not use the professional style or designation of "International Accountant" or such other designation as may be adopted by the Members in General Meeting or any designatory letters denoting membership except as prescribed by these presents and only where he remains an Elected Member.
- 19.3. On application for Membership every individual accepts that failure to duly observe the Articles, Bye-Laws, Regulations and Code of Ethics of the Association or any rules made thereunder may cause him to become liable under the Association's disciplinary proceedings.

20. Requirement to Provide Annual Return

- 20.1. Every Member shall make a return to the Association in such form and at such time as the Council shall prescribe showing whether or not the member is carrying on public practice and notifying a place of business or residence as his registered address.
- 20.2. Members must notify the Association of any change in his registered address.

21. Continuing Professional Development (CPD)

- 21.1. All members must adhere to the Association's Continuing Professional Development (CPD) Regulations as amended from time to time.

22. Retirement from or Forfeiture of Membership

- 22.1. Any Member, including an Elected Member, may resign on giving notice to the Council, but shall remain liable to pay arrears of subscription due from him at the date of such notice.
- 22.2. Any Member, including an Elected Member, shall automatically cease to be a Member or Elected Member in the event of his annual subscription or any part thereof or any other sum or sums payable by him to the Association being in arrears for a period in excess of six months, which period may from time to time be amended by the Council, from the date on which such subscriptions or other sum or sums respectively became payable but shall, nevertheless, be liable to pay the amount of such years' subscription and any other arrears of subscription or other sums due by him to the Association, and shall be liable otherwise on the basis that his membership continued until the date when all such subscriptions, arrears and other sums are fully paid. The Council shall have power at its discretion to suspend the operation of this clause. In the case of a person who has ceased to be a Member or Elected Member under this Regulation or Regulation 22.1, the Council may at its discretion, re-admit him to membership upon such conditions as they may think fit.
- 22.3. If any Member or Elected Member shall become bankrupt, or shall either individually or as a partner in a firm make or agree to make an assignment for the benefit of his creditors, or shall make any arrangement or composition with his creditors, or execute any similar deed or agreement, or shall take or attempt to take the benefit of any statutory provision of arrangement with his creditors, he shall cease to be a Member or an Elected Member, but at the discretion of the Council he may be re-instated with or without the payment of a new entrance fee or subscription.

- 22.4. If it shall appear that any Member failed to give adequate particulars of his personal, professional or business career in his application for membership, or if the particulars given (including in relation to an Elected Member) therein were incorrect or misleading, so that the insufficient, inaccurate or misleading information might have been responsible for or have influenced the granting of the application or the election of the Elected Member, the Council may by vote of two-thirds of the members of the Council present exclude such Member or Elected Member from membership.
- 22.5. The Council shall have the right to publish, in such newspapers or journals or such way as they may select, an announcement of termination of or exclusion from membership in whatever capacity or any other sanction imposed as a result of disciplinary action.

23. Position of Parties on Cessation of Membership

- 23.1. A person ceasing by death, or otherwise, to be a Member or an Elected Member of the Association or his representatives shall not have any claim upon or interest in the funds of the Association, but this regulation shall be without prejudice to the rights of the Association to claim from such person, or his estate, any arrears of subscriptions or other sums due from him to the Association, at the time of his ceasing to be a member. The privileges of a Member shall not be transferrable.
- 23.2. Any person who ceases either by resignation, expulsion or otherwise to be a Member, Elected Member or Student shall nevertheless remain liable, in relation to their conduct prior to their cessation, to the investigatory and disciplinary process referred to in these presents, and to any order made under such process and, without prejudice to the generality of the foregoing, shall pay any fine or costs exacted under such order and all sums due to the Association under such process.
- 23.3. Any person who ceases to be a Member or Elected Member shall cease to use the Association's distinguishing letters and any designation to which he may have been entitled by virtue of Membership either personally or on letter heading or elsewhere and shall forthwith return to the Association any Certificates of Membership or licenses of the Association relating to that person.

24. Practice as a Statutory Auditor

- 24.1. A Member of the Association shall not apply to become a member of a Recognised Supervisory Body for the purposes of Part 42 without having in force a certificate that he holds a Recognised Professional Qualification for that purpose.

- 24.2. A certificate under paragraph 24.1 above may be issued by the Association only to a Member who has taken in June 1991 or at some later date and passed at all required levels and in all required subjects the Professional Examinations of the Association and who has satisfied all other requirements of these presents in respect of the Recognised Professional Qualification of the Association.
- 24.3. A certificate under paragraph 24.1 above may be issued by the Association only to a Member.
- 24.4. A Member of the Association shall not:
- (a) accept the appointment as auditor of a company for the purposes of the Companies Acts; or
 - (b) represent himself as entitled to accept appointment as such auditor without having in force a practising certificate issued by a Recognised Supervisory Body for the purposes of Part 42.

25. Provision of Data

- 25.1. The Association may process the personal data of Members and Students subject to the provisions of the Data Protection Act 1998 as amended from time to time and any subsequent relevant legislation.
- 25.2. In certain circumstances this may include disclosure of said data to third parties, including statutory regulators, for legitimate purposes allowable by legislation.

Student Regulations

1. Citation, commencement and application

- 1.1. These regulations may be cited as The Association of International Accountants' Student Regulations 2021.
- 1.2. These regulations as amended shall come into force on 9 April 2021.
- 1.3. These regulations shall apply to all persons who are subject to these presents or who otherwise agree to be bound by them.
- 1.4. These regulations may be amended by resolution of the Council.

2. Definitions and Interpretation

- 2.1. The definitions and interpretations for these Regulations are as defined and set out in Article 1.

3. Entry as Student

- 3.1. A person shall not be registered as a Student with the Association unless:
 - (a) he satisfies the Association's requirements, as set out from time to time, for acceptance on to the Association's examinations for membership of the Association; and
 - (b) he satisfies the Applications & Membership Committee as to his general character and suitability; and
 - (c) he has submitted his application for registration as a Student on the prescribed form; and
 - (d) he has been admitted to a university or other equivalent establishment whether in the United Kingdom or elsewhere having obtained the appropriate entry requirements or has been educated to such a standard as would entitle him to be considered for such admission on the basis of academic or professional qualifications whether obtained inside or outside the UK; or
 - (e) he meets the appropriate entry requirements specified within an appropriate qualifications framework in force at the time.

4. Entry as a Student for Recognised Qualification for the Purposes of Part 42

- 4.1. A person shall not be registered as a Student for a Recognised Professional Qualification with the Association unless:
- (a) he satisfies the Association's requirements, as set out from time to time, for acceptance on to the Association's Recognised Professional Qualification for the purposes of Part 42 of the Act; and
 - (b) satisfies the Applications & Membership Committee as to his general character and suitability; and
 - (c) he has submitted his application for registration as a Student on the prescribed form; and
 - (d) he has been admitted to a university or other similar establishment in the UK having obtained the appropriate entry requirements or has been educated to such a standard as would entitle him to be considered for such admission on the basis of academic or professional qualifications whether obtained inside or outside the UK and which are recognised by the Secretary of State to be of an appropriate or equivalent standard; or
 - (e) he has had not less than seven years professional experience in a professional capacity in the fields of finance, law and accountancy.

5. Student Restrictions

- 5.1. An individual who is registered as a Student of the Association may not:
- (a) claim to be a member of the Association;
 - (b) be, or hold themselves out to be, in public practice;
 - (c) be, or hold themselves out to be, a partner or director of a firm, or a member of a limited liability partnership, where public practice is carried on in the name of the firm, or otherwise in the course of the firm's business; or
 - (d) hold rights in a firm where public practice is carried on in the name of the firm, or otherwise in the course of the firm's business, which in effect put him in the position of a principal of the firm.

6. Student Rights

- 6.1. An individual who is registered as a Student of the Association is permitted to provide basic book-keeping services to the public, for reward, provided that they do

not refer to their studentship or potential membership of the Association. For the purpose of these regulations basic book-keeping services are restricted to the recording of basic accounting data. This includes:

- (a) the preparation of accounting records to trial balance stage;
- (b) maintaining clients' records in respect of payroll and employment taxes; and
- (c) maintaining basic sales tax records.

For the avoidance of doubt, the taking of decisions usually reserved for management and the provision of advice to clients are indicative of services which lie beyond basic book-keeping.

7. Student Obligations

- 7.1. Every person shall, upon applying for admission as a Student, agree so long as he is a Student, to duly observe the Articles, Bye-Laws, Regulations, the Code of Ethics and any rules made thereunder.
- 7.2. Every individual accepts that failure to duly observe the Articles, Bye-Laws, Regulations and Code of Ethics of the Association or any rules made thereunder may cause him to become liable under the Association's disciplinary proceedings.

8. Students' Addresses

- 8.1. Every registered student shall be required to notify the Association of a place of business or residence as his registered address and to notify the Association forthwith of any change in his registered address.

9. Provision of Data

- 9.1. The Association may process the personal data of Members and Students subject to the provisions of the Data Protection Act 1998 as amended from time to time and any subsequent relevant legislation.
- 9.2. In certain specific circumstances this may include disclosure of said data to third parties, including statutory regulators.

Public Practice Regulations

1. Citation, commencement and application

- 1.1. These regulations may be cited as The Association of International Accountants' Public Practice Regulations 2022.
- 1.2. These regulations as amended shall come into force on 7 March 2022.
- 1.3. These regulations shall apply to all persons who are subject to these presents or who otherwise agree to be bound by them.
- 1.4. These regulations may be amended by resolution of the Council.

2. Definitions and Interpretation

- 2.1. The definitions and interpretations for these Regulations are as defined and set out in Article 1.

3. Authorisation to Practise

- 3.1. Authorisation by the Association of a Member to undertake public practice and act as an Independent Examiner shall be made by the issue by the Applications & Membership Committee of a Practising Certificate, the form and wording of which shall be as from time to time determined by the Applications & Membership Committee and shall set out the jurisdiction to which it applies together with any restrictions.
- 3.2. A Practising Certificate shall only be issued to a Member who has satisfied the relevant criteria for its issue.
- 3.3. A Practising Certificate shall contain provisions identifying the work that a Member is authorised to perform under the Certificate.
- 3.4. A Practising Certificate issued by the Association shall authorise a Member to practise in one of the following categories:
 - (a) as an accountant in public practice in the UK which Certificate shall also authorise the Member to act as an Independent Examiner;
 - (b) as an accountant in public practice in the Republic of Ireland;
 - (c) as an accountant in public practice in a jurisdiction other than the UK.

- 3.5. A Practising Certificate issued in respect of a period commencing on or after 1 October shall, unless it is earlier withdrawn by the authority of a relevant Committee of the Council in line with the Bye-Laws expire on 30 September next following the date on which it commences to be valid.
- 3.6. The grant, refusal, renewal, suspension and withdrawal of Practising Certificates with or without conditions shall be subject to the provisions of these presents, the Articles, the Bye-Laws and any regulations or guidelines as may from time to time be prescribed, in respect to such certificates.

4. Establishing Entitlement

- 4.1. A Member shall be entitled to engage in public practice as an accountant provided:
- (a) he has had issued to him by the Association a Practising Certificate authorising him to practise in such capacity and that certificate is currently in force; or
 - (b) he holds a current practising certificate issued by a Recognised Supervisory Body in the United Kingdom or a Recognised Accountancy Body in the Republic of Ireland.
- 4.2. When a Member who does not at the time of his application already hold a valid Practising Certificate to practise as an accountant applies for such a certificate he shall provide evidence of the following matters:
- (a) where the period of post-qualifying professional experience upon which he relies commenced not later than 31 December 1995 the completion of that period (being not less than two years) of professional experience with a Statutory Auditor or other accountant in public practice. Evidence shall be required in respect of a UK Practising Certificate of experience in preparing or auditing accounts of limited companies particularly of a size relevant to reports for the purposes of the Small Company Audit Exemption and Reporting Code and familiarity with company accounting and the provisions of the Act of 2006 and of the Charities Act 2011 that are relevant to the duties of an Independent Examiner;
 - (b) where the period of post-qualifying professional experience upon which he relies commenced on or after 1 January 1996:
 - i. the completion of that period (being not less than two years) of professional experience with a Statutory Auditor or other accountant in public practice and that such experience was at a sufficient level of

responsibility and workload in at least three of the main categories of work; Auditing, Financial Accounting, Taxation, Financial Management and Management Accounting, and Data Processing to enable him to practise in such areas without supervision on his own account. Evidence shall be required in respect of a UK Practising Certificate of experience in preparing or auditing accounts of limited companies, particularly of a size relevant to reports for the purposes of the Small Company Audit Exemption and Reporting Code and familiarity with company accounting and the provisions of the Act of 2006, and of the Charities Act 2011 that are relevant to the duties of an Independent Examiner;

- ii. continuing professional development during the period of post-qualifying experience in accordance with the requirements of the Bye-Laws and Regulations in force from time to time.

- 4.3. The Association shall be entitled to issue to a Member a Practising Certificate authorising practice as an accountant if he satisfies the Council that in all the circumstances of his case it would be proper to waive one or more of the requirements of Regulation 4.1.

5. Application for and Conditions of Issue of a Practising Certificate

- 5.1. Application for a Practising Certificate from a Member shall be made in the form prescribed by the Applications & Membership Committee and be accompanied by such evidence as the Applications & Membership Committee may require of experience or training authenticated in such manner as that Committee may require and compliance with the requirements of the Bye-Laws and Regulations as to Continuing Professional Development.

- 5.2. No application shall be valid unless accompanied by:

- (a) the relevant fee as from time to time prescribed by the Council; the fee to be refunded if the application is unsuccessful; and
- (b) evidence that the Member is indemnified for the whole of the period for which the Practising Certificate is intended in a manner and amount in accordance with these presents in respect of claims against him arising out of his professional work; and
- (c) a copy of the practice letterhead; and

- (d) an undertaking to be bound by and at all times comply and seek to procure compliance with the Articles, Bye-Laws and Regulations, including where the practice is to be undertaken in the UK, acting as an Independent Examiner.
- 5.3. An applicant for a Practising Certificate must satisfy the Applications & Membership Committee:
- (a) that he is a fit and proper person to undertake public practice as appropriate, and
 - (b) that he has acceptable arrangements in place to ensure the continuity of his practice in accordance with the Bye-Laws and Regulations,
 - (c) that he has acceptable arrangements in place to satisfy the requirements for Professional Indemnity Insurance in accordance with the Bye-Laws and Regulations, and
 - (d) that appropriate Anti Money Laundering registration and supervision is in place.
- 5.4. The requirements to be satisfied by a Member in seeking a Practising Certificate from the Association shall be prescribed by the Applications & Membership Committee and contained in the relevant Application form for the Practising Certificate together with such guidance as that Committee may issue in that connection.

6. Establishing Fit and Proper Status

- 6.1. The Applications & Membership Committee shall only issue a practising certificate to an applicant that is fit and proper and it shall use these presents, including but without limitation to Membership Regulation 10, to determine such eligibility.
- 6.2. The Applications & Membership Committee may consider all current and past matters which impact on the ability to hold a practising certificate.
- 6.3. In addition to Membership Regulation 10 the Applications & Membership Committee may consider any matter which relates to the applicant and:
- (a) any matter relating to any person who is or will be employed by or associated with him for the purposes of or in connection with public practice;
 - (b) in the case of a partnership, any matter relating to any of the partners, any director or controller of any of the partners, any body corporate in the same group as any of the partners and any director or controller of any such other body;

- (c) in the case of a body corporate, any matter relating to any director or controller of the body, any other body corporate in the same group or any director or controller of any such other body; and
 - (d) in the case of a limited liability partnership, any matter relating to any of the members or designated members of the limited liability partnership.
- 6.4. In determining whether a person is fit and proper the Applications & Membership Committee may, without limitation, take into account whether a person has:
- (a) been convicted of a criminal offence; or
 - (b) been the subject of a disciplinary order made by the Association or another professional body; or
 - (c) been or is the subject of an investigation, whether criminal, disciplinary or otherwise, in respect of their conduct; or
 - (d) committed a material breach of an applicable regulation of the Association; or
 - (e) fallen within any of the criteria set out at regulations 6.5 or 6.6; or
 - (f) on any occasion given the Association false, inaccurate or misleading information or failed to co-operate with the Association.
- 6.5. In the case of individuals, the criteria referred to in regulation 6.4(e) are whether the person is or has been:
- (a) at any time bankrupt, signed a trust deed for creditors or entered into a deed of arrangement, scheme or composition in respect of their financial affairs (or any similar or analogous event); or
 - (b) removed from the office of liquidator, trustee, administrative receiver, administrator or supervisor; or
 - (c) the subject of a disqualification order or disqualification undertaking made under the Company Directors Disqualification Act 1986 of the United Kingdom; or
 - (d) subject of a bankruptcy restriction order or bankruptcy restriction undertaking under the Insolvency Act 1986 of the United Kingdom; or
 - (e) excluded from or refused membership of a professional body on disciplinary grounds; or
 - (f) found to have failed to ensure that the experience and competence of their employees and practice associates are adequate, having regard to the nature of the work involved; or

- (g) a patient under the Mental Health Act 1983 of the United Kingdom; or
 - (h) the equivalent of or similar to the above criteria under the corresponding legislation of any country or jurisdiction.
- 6.6. In the case of firms, the criteria referred to in regulation 6.4(e) are as for individuals as specified in regulation 6.5, with such amendments as are appropriate to make the criteria applicable to firms.

7. Scope and Validity of Practising Certificate

- 7.1. A Practising Certificate shall entitle a Member to undertaken public practice only in the jurisdiction in which he obtained his post qualifying experience in public accountancy and shall be restricted to such areas of public practice as the Member is entitled to undertake under such Practising Certificate. A Member not having been examined in the local law and taxation papers of a jurisdiction in which he wishes to practise shall be required by the Council to satisfy the Association's Examiners in papers relating to local law and taxation and any other requirement stipulated by the state in which he wishes to practise before being issued with a Practising Certificate valid in that jurisdiction.
- 7.2. A UK Practising Certificate shall entitle a Member to practise as a public accountant, including the undertaking of reporting work and similar work, in respect of sole enterprises, partnerships and small companies, which are totally exempt from the audit requirements of the Act of 2006 under section 477 of that Act, and to prepare reports and financial statements in respect of small companies under the Small Company Audit Exemption and Reporting Code.
- 7.3. The grant or renewal by the Association of a UK Practising Certificate in respect of public practice as an accountant shall entitle the Member to whom it is issued to practise as an Independent Examiner for the purposes of the Charities Act 2011.
- 7.4. A Member who holds a Certificate of Recognised Professional Qualification in the UK shall be entitled to a Practising Certificate in respect of Practice as an accountant subject to his satisfying all other relevant provisions of these presents.
- 7.5. The grant or renewal by the Association of a Practising Certificate authorising public practice as an accountant shall not entitle the Member to whom it is issued to practise as an auditor for the purposes of Part 42.
- 7.6. A Practising Certificate in respect of a jurisdiction outside the UK shall not confer any entitlement to act as an auditor in that jurisdiction unless the Member holding the

certificate has obtained such (if any) local authorisation as may be required for the purpose in the jurisdiction concerned.

8. Changes in Circumstances

- 8.1. A Member holding a Practising Certificate must notify the Applications & Membership Committee forthwith of any change:
- (a) of his name or that of the practice;
 - (b) in respect of a partnership or a corporate firm, of the name and principal business address of any of the partners or directors;
 - (c) to his status as a fit and proper person or to the status of any partner, director, employee or person providing service in respect of the practice; or
 - (d) to the circumstances of his practice which might affect his entitlement to undertake public practice and to act as an Independent Examiner; or
 - (e) in respect of Anti Money Laundering Regulations any change of Reporting Officer or Compliance Principals as prescribed in the Regulations.

9. Withdrawal or Suspension of Practising Certificate

- 9.1. A Member may have a Practising Certificate withdrawn where the Disciplinary Committee has made a finding that the Member has breached or ceased to comply with the relevant Articles, Bye-Laws and Regulations of the Association, or any condition imposed in relation to a Practising Certificate, or has ceased to be or never was entitled to be granted such certificate or as may be required as a result of an Order including a Consent Order made against him.
- 9.2. A Member holding a Practising Certificate who ceases to practise shall not be absolved from any breach of the relevant Articles, Bye-Laws and Regulations on his part prior to such cessation or any breach thereof at any time thereafter; the extent that they subsist after such cessation and he shall remain liable to disciplinary action in respect of such breaches.
- 9.3. A Member holding a Practising Certificate who has ceased or is likely to cease to be eligible for such certificate shall notify the Applications & Membership Committee of the circumstances and of any steps being taken to remedy the position. If the Applications & Membership Committee is satisfied in that regard it may grant a dispensation to the Member from requirement to comply with any such Article, Bye-Law or Regulation.

- 9.4. A Member holding a Practising Certificate who has been found guilty of an offence under the Anti Money Laundering Regulations shall have his Practising Certificate withdrawn immediately and will be liable to disciplinary action under the Association's Bye-Laws.

10. Restrictions and Conditions

- 10.1. The Practice Compliance Committee may impose restrictions or conditions on the entitlement of a Member to undertake public practice, including practice as an Independent Examiner, if it considers that:
- (a) he has or may have breached or ceased to comply with, or may breach or not comply with the relevant Articles, Bye-Laws and Regulations and in the circumstances the restrictions and/or conditions are justified; or
 - (b) practice by him without restrictions or conditions could be prejudicial to a client or other person.
- 10.2. The Practice Compliance Committee may suspend a Practising Certificate for a period specified in these presents pending and during the course of disciplinary proceedings.

11. Professional and Technical Standards

- 11.1. A Member shall conform to and maintain the standards of professional ethics and conduct from time to time laid down by the Council and shall at all times comply with all standards issued by the Financial Reporting Council (FRC).
- 11.2. A Member shall in respect of any work he undertakes as an accountant in Practice and an Independent Examiner:
- (a) ensure that at all times he is eligible to be appointed as an Independent Examiner in respect of a company under the provisions of the Charities Act 2011 and in particular at all times ensure his independence in accordance with Section 145 of the Act.
 - (b) before accepting appointment, or re-appointment, give consideration to his own independence and ability properly to carry out the work involved, and the availability of sufficient resources for the purpose;
 - (c) carry out his report work properly and with integrity;

- (d) not accept an appointment or continue as an Independent Examiner in respect of the accounts of a charity if he has any interest which is likely to conflict with the proper conduct of report work for that charity;
- (e) take appropriate measures to prevent individuals who are not qualified persons, and persons who are trustees in the charity about which a report is being prepared, from being able to exert any influence over the way the report work is being carried out in circumstance in which that influence would be likely to affect the integrity or independence of that work;
- (f) comply with the requirements of the Charities Act 2011 and all other legal requirements as they relate specifically to reports by Independent Examiners and as they are otherwise relevant to the duties of an Independent Examiner;
- (g) establish and maintain controls appropriate to his circumstances to ensure any person assisting him with report work is a fit and proper person and adheres to the principles of independence, integrity and confidentiality as apply to himself in respect of his report work;
- (h) ensure that he is and continues to be competent in the conduct of report work and in that regard fulfils annually the continuing professional development requirements laid down by the Council from time to time;
- (i) ensure that whilst acting as an ATOL Reporting Accountant he complies with all requirements and regulations prescribed by the Association and the Civil Aviation Authority (CAA);
- (j) ensure that he complies with standards and all other requirements as detailed in the Professional Conduct in Relation to Taxation (PCRT) as adopted by the Association;
- (k) establish and maintain procedures which bring to the attention of all persons assisting with the report work the relevant Articles, Bye-Laws and Regulations, and the applicable statement of standards issued by the Financial Reporting Council (FRC) and relevant guidance issued from time to time by the Association in respect of professional ethics and conduct.

12. Monitoring

- 12.1. A Member in public practice as an accountant in the UK and where relevant who acts as an Independent Examiner shall provide such returns, statements and information as the Practice Compliance Committee shall deem necessary, and in such form and manner as the Practice Compliance Committee shall from time to time determine, in

respect of his public practice work including his reporting work under the Charities Act 2011.

- 12.2. Compliance by a Member authorised for Public Practice and where relevant who acts as an Independent Examiner with the relevant Articles, Bye-Laws and Regulations shall be monitored by the Practice Compliance Committee by periodic reviews of the returns required thereunder and visits to the practice office.
- 12.3. A Member in public practice, in a jurisdiction outside the UK shall provide returns, statements and information and shall be subject to monitoring, which may include visits to his practice, as provided in these Regulations in respect of Members in public practice in the UK.
- 12.4. IAASA shall be entitled through its authorised agents or representatives:
 - (a) to attend and observe all meetings, hearings and other proceedings of any Committees, Tribunals or other similar body of the Association having a role in the regulation, monitoring or discipline of the Association's members; and
 - (b) to have access to and be provided with copies of all records in whatever form including transcripts of meetings, hearings and other proceedings held or conducted by the Association in the performance of its regulatory functions as a Prescribed Accountancy Body.
- 12.5. Members subject to these Regulations shall be subject to monitoring to meet the Association's obligations under the Money Laundering Regulations.
- 12.6. Members subject to these Regulations shall, and shall ensure (insofar as they are able) that all persons associated with them shall, co-operate with the Association in its monitoring and enforcement of compliance with these Regulations and with these presents.

13. Professional Indemnity Insurance

- 13.1. A Member applying for a Practising Certificate in respect of public practice as an accountant shall lodge with such application evidence that there is in force for the period for which the Practising Certificate is intended to be valid appropriate indemnity cover for claims against the Member arising out of the Member's professional work, including provision for retroactive cover for liabilities arising from circumstances not known at the time the insurance is first taken out. A Member shall make the relevant insurance documents available for inspection by the Association at any time.
- 13.2. The annual minimum amount of indemnity for a Member in public practice shall be:

- (a) where the amount of the total income from fees in the year immediately preceding that to which the insurance relates is less than £400,000, exclusive of VAT or other similar tax, a sum equal to two and a half times that amount subject to a minimum indemnity of £50,000 in the case of a sole practitioner and £100,000 in any other case; or
 - (b) where the amount of such total income is £400,000 or more, £1 million for any one claim and in all; or
 - (c) where he is a member of a Recognised Supervisory Body such amount as shall be agreed as appropriate by the Association; but
 - (d) where he is in Practice in the Republic of Ireland, in line with Regulation 21.
- 13.3. The policy of indemnity cover may provide for the insured to bear the first part of any claim up to such sum as is reasonable and commonly provided for in professional indemnity policies for accountants or auditors as the case may be.
- 13.4. The annual minimum amount of indemnity in the case of a Member practising in a jurisdiction other than the UK and the Republic of Ireland shall be as from time to time specified by the Council.
- 13.5. A Member to whom a Practising Certificate is issued by the Association shall ensure that the professional indemnity insurance cover remains in place throughout the period the relevant certificate is in force and that cover in respect of professional indemnity insurance on a similar basis is maintained for a period of two years following cessation of a Member's practice.
- 13.6. A Member should ensure that the minimum amount of indemnity cover for professional indemnity insurance is maintained in place at all times.

14. Continuity of Practice

- 14.1. A Member applying for or holding a Practising Certificate to engage in public practice as an accountant, including as an Independent Examiner in the UK, must ensure that at all times there is adequate provision made for the carrying out of his public accountancy and report work by another accountant in public practice in the event of his death, or incapacity to an extent which prevents his continuing to provide the service involved.
- 14.2. A Member shall make the relevant agreement available for inspection by the Association at any time.

15. Custody of Client Assets

- 15.1. A Member must not assume custody of client monies or other assets unless permitted to do so by law and if so in compliance with any additional legal duties imposed on Members engaged in public practice.
- 15.2. A Member in public practice who is entrusted with money (or other assets) belonging to others shall:
- (a) keep such assets separately from personal or firm assets;
 - (b) use such assets only for the purpose for which they are intended;
 - (c) at all times be ready to account for those assets, and any income, dividends or gains generated to any persons entitled to such accounting; and
 - (d) comply with all relevant laws and regulations relevant to the holding of and accounting for such assets; and
 - (e) adopt client money policies and procedures that are at least as stringent as those set out in these Public Practice Regulations.
- 15.3. A Member must as part of the acceptance and engagement procedures for a client make all appropriate inquiries required by law concerning the source of assets and funds and must consider at all times their legal and regulatory obligations in relation thereto.
- 15.4. Where a Member receives money belonging to a single client which exceeds £10,000, and it is anticipated that the money will be held by the firm for more than 30 days, that money shall be paid into a separate interest-bearing bank account designated to that client. A member firm shall always account to a client in respect of interest earned on such a designated client account.
- 15.5. A Member should not provide banking facilities for clients for a period exceeding 3 months and in any event should before that time at all times comply with Regulation 15.3.
- 15.6. A Member may withdraw money held in a client bank account when:
- (a) making a repayment to a client on whose behalf the firm is holding the money;
 - (b) following receipt of written authorisation from the client:
 - i. making a payment on behalf of a client on whose behalf the firm is holding the money; or
 - ii. making a payment to the firm relating to fees earned by the firm; or
 - (c) transferring money to another client bank account.

- 15.7. When opening a client bank account, a Member must provide written notice to the bank concerned that:
- (a) all money standing to the credit of that account is held by the Member as clients' money and that the bank is not entitled to combine the account with any other account or to exercise any right to set off or counterclaim against money in that account;
 - (b) any interest accruing on the money in the client bank account must be credited to that account; and
 - (c) the bank must include in its records that the money in the client bank account belongs to the client(s) of the Member;

The bank must acknowledge in writing that it accepts these terms before a Member may deposit any clients' money into the client bank account.

- 15.8. A Member may cease to treat as clients' money any money that remains unclaimed by a client five years after depositing the funds in the client bank account, provided that the Member can demonstrate that it has taken all reasonable steps to trace the relevant client. In such circumstances, the money withdrawn from the client bank account shall be donated to a registered charity. If the amount exceeds £10,000 in respect of a particular client, the Member shall require the registered charity to provide an indemnity against any claim subsequently made by a party to recover the money.
- 15.9. A Member shall keep adequate records in respect of all transactions in a client bank account, including details of all transactions in the clients' ledger accounts. A Member shall reconcile the client bank account to the clients' ledger accounts every month, or more frequently if appropriate. These records shall be kept for at least six years from the date of any transaction in a client bank account.
- 15.10. A Member in public practice shall, on request, make available to the Association records in respect of the holding of clients' money.

16. Engagement Letters

- 16.1. A Member holding a Practising Certificate shall send their client an engagement letter which sets out the services to be performed, the scope of the member firm's responsibilities, and the terms under which the firm is agreeing to be engaged by the client. The engagement letter shall be agreed with the client before any professional work is undertaken by the Member or, if this is not possible, as soon as practicable.

- 16.2. The engagement letter agreed with each client shall be reviewed regularly. Where new work is to be undertaken on behalf of a client, or any terms are required to be amended, the Member shall issue a new engagement letter, and agree the services and amended terms with the client.
- 16.3. A Member in Practice shall retain evidence of the terms that have been agreed by way of an engagement letter, including any amended terms, and members shall, on request, make available to the Association copies of their engagement letters.

17. Internal Complaints

- 17.1. A member of the Association who is engaged in public practice shall implement adequate procedures to handle client complaints in respect of fee, service, and contractual disputes.
- 17.2. Members engaged in public practice shall ensure that clients are made aware of how to complain if they are dissatisfied with the service that they receive, and that a client who raises a complaint is treated with respect.
- 17.3. Adequate arrangements for handling complaints shall include, but not be limited to, policies and procedures ensuring that:
- (a) complaints are acknowledged promptly, in writing;
 - (b) where the member receives a complaint orally, the letter of acknowledgement sets out the member's understanding of the nature of the complaint;
 - (c) complaints are investigated by the member or the member's firm, unless it can be demonstrated that:
 - i. the complaint is already being investigated by an organisation such as a regulator or professional body;
 - ii. the complaint is already the subject of adjudication, mediation or alternative dispute resolution; or
 - iii. the complaint is trivial or vexatious.
 - (d) each complaint is investigated by an individual of sufficient experience and seniority within the member's firm;
 - (e) where possible, a complaint is investigated by an individual who was not involved in the alleged act or inaction that gave rise to the complaint;
 - (f) following investigation, any remedial action considered appropriate is taken promptly;

- (g) if the member's firm's internal complaints-handling arrangements have been exhausted, the client is informed that the member's firm has been unable to resolve the complaint; and
 - (h) where a complaint is not resolved to a client's satisfaction, the client is advised of their right to refer their complaint to the Association.
- 17.4. On receiving a complaint, and throughout the process of investigating a complaint, a member or member's firm shall determine whether it is required to inform its professional indemnity insurance provider of the complaint.

18. Whistleblowing Arrangements

- 18.1. Members of the Association engaged in public practice shall have arrangements in place to protect the anonymity of individuals who make a whistleblowing disclosure concerning the conduct of any individual employed by the member's firm.
- 18.2. Members of the Association engaged in public practice shall ensure that arrangements are put in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- 18.3. These arrangements so put in place shall ensure, without limitation, compliance with the Money Laundering Regulations.

19. Anti-money Laundering Supervision

- 19.1. Members of the Association holding a Practising Certificate are considered registered for the purposes of anti-money laundering supervision unless supervised with another appropriate professional body supervisor.
- 19.2. The Association shall take reasonable and necessary measures to prevent persons convicted of a relevant offence from performing a management function in or being the beneficial owners of a supervised individual or firm.
- 19.3. Any Member or Firm supervised by the Association for the purposes of anti-money laundering and performing a management function in or being the beneficial owner of the supervised individual or firm and who is convicted of a relevant offence must inform the Association within 30 days of the day on which that person was convicted of the relevant offence.
- 19.4. Any Member or Firm supervised by the Association for the purposes of anti-money laundering for which or in respect of which a person who is convicted of a relevant offence, performs a management function or is a beneficial owner, shall inform the

Association of the conviction in 19.3 within 30 days of the date on which they became aware of the conviction.

19.5. Members in Practice supervised by the Association for the purposes of the Money Laundering Regulations must comply at all times with:

- (a) The Money Laundering Regulations appropriate for the jurisdiction within which they carry on accountancy services by way of business;
- (b) These presents; and
- (c) Any guidance issued from time to time by the Association.

20. Disclosure of Information

20.1. A member of the Association who is engaged in public practice must supply the Association with all necessary information to enable the Association to comply with its obligations with respect to any legal and regulatory requirements that may exist in the country where the member is based.

21. Additional Requirements for Members Practising in the Republic of Ireland

21.1. The annual minimum amount of indemnity for a Member in public practice in the Republic of Ireland shall be:

- (a) where the amount of the total income from fees in the year immediately preceding that to which the insurance relates is less than €400,000, exclusive of VAT or other similar tax, a sum equal to two and a half times that amount subject to a minimum indemnity of €50,000 in the case of a sole practitioner and €100,000 in any other case; or
- (b) where the amount of such total income is €400,000 or more, €1 million for any one claim and in all; or
- (c) where he is a member of a Recognised Supervisory Body such amount as shall be agreed as appropriate by the Association; excepting that
- (d) a Member engaged in Insolvency practice must obtain minimum cover of €1,500,000 (exclusive of defence costs) in respect of each and every claim, and obtain cover for defence costs, in compliance with the Companies Act 2014 (Professional Indemnity Insurance) (Liquidators) Regulations 2016 (S.I. 2016/127).

Complaints, Disciplinary & Appeals Regulations

1. Citation, commencement and application

- 1.1. These regulations may be cited as The Association of International Accountants' Complaints, Disciplinary & Appeals Regulations 2022.
- 1.2. These regulations as amended shall come into force on 7 March 2022.
- 1.3. These regulations shall apply to all persons who are subject to these presents or who otherwise agree to be bound by them.
- 1.4. These regulations may be amended by resolution of the Council.

2. Definitions and Interpretation

- 2.1. The definitions and interpretations for these Regulations are as defined and set out in Article 1.

3. Liability to Disciplinary Action

- 3.1. Under the conditions prescribed in Bye-Law 8, a Member, Elected Member or Student shall be liable to disciplinary action if:
 - (a) he has been guilty of misconduct whether in the course of carrying out his professional duties or otherwise;
 - (b) he has in the performance of his professional work or the conduct of his practice or the performance of the duties of his employment shown inefficiency or incompetence to such an extent or with such frequency as to bring discredit to himself, to the Association or to the accountancy profession;
 - (c) he (or any relevant individual(s) relating to the firm as defined by legislation relevant to the jurisdiction in which he operates) has committed any breach of the Articles or the Bye-Laws (or any Regulations made under them) or the Code of Ethics in respect of which he is, or has agreed to be, bound;
 - (d) he has failed as an individual or as a partner to satisfy a judgement debt, has made an assignment for the benefit of creditors or under any resolution of creditors or order of the court has had his estate placed in liquidation for the benefit of creditors or has made any arrangement for the payment of a composition to creditors;

- (e) he has failed to fully co-operate with the Association in regard to the monitoring and quality assurance process;
- (f) he has failed to comply with any order requirement or advice of the Investigations, Disciplinary or Appeals Committee;
- (g) he has failed to co-operate with the Association in disciplinary proceedings brought against him;
- (h) he is guilty of any gross default or misconduct in connection with or affecting the business of the Association;
- (i) he becomes bankrupt or makes any composition or enters into any arrangement with his creditors;
- (j) he is convicted of any arrestable criminal offence (other than an offence under road traffic legislation in the United Kingdom or elsewhere for which a fine or non-custodial penalty is imposed);
- (k) he is guilty of any fraud, dishonesty or conduct tending to bring himself or the Association into disrepute;
- (l) he is disqualified from holding office in a company in which he is concerned or interested because of wrongful trading under the Insolvency Act 1986;
- (m) he shall become of unsound mind or become a patient under the Mental Health Act 1983 (as amended from time to time).

3.2. A Firm shall be liable to disciplinary action if:

- (a) it has carried out its professional duties in a manner which makes it guilty of professional misconduct for which purpose such misconduct includes (but not exclusively) any act or default likely to bring discredit on the Firm itself, the Association or the profession of accountancy;
- (b) the Firm has failed or neglected to respond adequately or at all to correspondence from the Association or any person acting on behalf of the Association or has not fully co-operated with any enquiry or investigation being conducted by or on behalf of the Association;
- (c) the Firm has carried on its professional duties so incompletely or inefficiently whether singularly or on a number of occasions so as to bring discredit to itself, the Association or the profession of accountancy;
- (d) the Firm is in breach of the Articles of Association, Bye-Laws or Regulations made under them and where that breach is capable of remedy has failed to rectify that breach within the time prescribed by the Association;

- (e) the Firm has failed to satisfy a judgement debt obtained in any jurisdiction;
 - (f) the Firm has failed to comply with any requirement order or fine made against it by the Association;
 - (g) any relevant individual(s) relating to the Firm as defined by legislation relevant to the jurisdiction in which it operates has committed any breach of the Articles or the Bye-Laws (or any Regulations made under them);
 - (h) the Firm has failed despite repeated requests to put into effect advice given to it by the Association.
- 3.3. Where the Firm has been found liable or has pleaded guilty to any offence in a Court of competent jurisdiction concerning drug trafficking, money laundering, tax evasion, or a serious breach of companies legislation to which the Firm is subject, or complicity in any such offences, or has in any proceedings had a finding of fraud or dishonesty made against it such finding shall unless the contrary is demonstrated amount to proof of misconduct.
- 3.4. Liability to disciplinary action in accordance with these presents shall extend to circumstances in which the occurrence giving rise to such liability took place wholly or partly before the person in question became a Member, Elected Member or Student or wholly or partly before the Firm became a Firm.
- 3.5. For the purposes of Regulation 3 actions making Members, Elected Members, Students or Firms liable to disciplinary action shall not extend to fee disputes.
- 3.6. For the purposes of paragraph 3.1 and 3.2 above misconduct includes any act or default likely to bring discredit to the Member, Elected Member, Firm or Student in question or to the Association or accountancy profession or any act or default which is a breach of the Association's Code of Ethics.
- 3.7. Where a Member, Elected Member, Firm or Student has before a court of competent jurisdiction of any country, pleaded guilty to or been found guilty of any offence discreditable to him or to the Association or the accountancy profession or has in any civil proceedings before any court of competent jurisdiction been found to have acted fraudulently or dishonestly, that fact shall be prima facie evidence of misconduct unless the contrary is shown.
- 3.8. The findings of a court in any civil proceedings whatsoever may be treated as prima facie evidence of misconduct unless the contrary is shown.
- 3.9. Subject to Regulation 3.10, disciplinary proceedings in respect of a Member, Elected Member, Firm or Student shall be regulated by these Articles, Bye-Laws and any Regulations made thereunder.

- 3.10. It shall be the duty of every Member, Elected Member, Firm or Student at all times to co-operate with the Investigations, Disciplinary and Appeals Committees appointed pursuant to these presents and it shall be the duty of every Member to use his best endeavours to ensure that every Firm of which he is a member shall do likewise.

4. Obligation to Co-operate and Inform

- 4.1. Every Member, Elected Member, Firm or Student shall at all times co-operate with the Council and the committees and/or individuals appointed by it under these presents in the administration of the Association's Disciplinary Process.
- 4.2. Subject to any legislative or other legal obligation to the contrary, it shall be for every Member and for any person to whom these presents relate to bring promptly to the attention of the Secretary any facts or matters indicating that a Member, Firm or registered Student may have become liable to disciplinary action and in any such case the Secretary shall present the facts and matters before the relevant committee of Council or individual if he is of the opinion that the complaint should be investigated by that committee or individual.

5. Disciplinary Process Committee Framework

- 5.1. The Council shall at the first meeting of the Council after this Regulation comes into force and as soon after each Annual General Meeting as shall be practicable by resolution appoint:
- (a) the members of the following committees, viz an Investigations Committee, a Disciplinary Committee, and an Appeals Committee, and
 - (b) the Chairman of each of the above Committees.
- 5.2. The members and Chairman shall remain in office until the passing of a resolution by the Council to appoint fresh members to the committee and/or the Chairman.
- 5.3. The Council may from time to time appoint a person either to fill a casual vacancy or as an additional member of any such Committee, and may remove any member of any such Committee.
- 5.4. No person shall at the same time be a member of more than one of the Committees referred to in clause 5.1 (a) above.
- 5.5. Each of the Committees referred to in clause 5.1(a) above may continue to act notwithstanding that his composition shall not comply with the requirements,

respectively of Regulations 7, 13 and 15, provided the quorum prescribed therein for its meetings shall be present.

- 5.6. The Council shall have the power to pay remuneration to and the reasonable expenses of:
- (a) persons appointed to the Investigations Committee, the Disciplinary Committee and the Appeals Committee save that in the case of Members the power shall be restricted to reasonable expenses;
 - (b) non-accountants, lawyers and others who may be appointed to or engaged to advise or otherwise assist any of the Committees; and
 - (c) the Complaints Reviewer.

6. The Secretary

- 6.1. The Council shall have the power to appoint a Secretary and to remunerate him and pay his reasonable expenses together with any staff and other expenses necessary for the proper performance of his duties.
- 6.2. The Secretary shall not be a Member or an accountant in public practice.
- 6.3. The Secretary shall ensure that:
- (a) Complaints are referred to the appropriate Committee or the Complaints Reviewer as the case may be;
 - (b) Complaints are dealt with in a timely and efficient manner;
 - (c) notices relating to hearings are given to the Complainant, Respondent and the relevant regulatory body;
 - (d) a formal record of all proceedings before the Disciplinary and Appeals Committees is kept;
 - (e) any decision, direction or Order of a Committee together with any Consent Order is notified to the Complainant and Respondent and properly recorded on the appropriate register;
 - (f) findings and Orders shall be published in accordance with these presents;
 - (g) insofar as he is capable, confidentiality in respect of any Complaint during the investigation stage (including any review by the Complaints Reviewer) shall be maintained and thereafter if so required by the appropriate Committee.

7. Investigations Committee

- 7.1. The Investigations Committee shall consist of not less than five persons including the Chairman of whom not less than three shall be non-accountants and the others should be Members of the Association provided always that where the members of the Committee shall exceed five persons the majority shall always be non-accountants. The quorum for any meeting of the Committee shall be three of whom at least two shall be non-accountants. At any meeting of the Committee the quorum shall consist of a majority of non-accountants.
- 7.2. The Investigations Committee shall have the power to:
- (a) investigate all Complaints referred to it by the Secretary and by relevant committees of the Council as prescribed in these presents;
 - (b) refer to the Disciplinary Committee its findings and recommendations for disciplinary action against any Member, Elected Member, Firm or Student;
 - (c) settle minor Complaints by mediation or other dispute resolution process in the form of a Consent Order;
 - (d) undertake such functions relating to disciplinary proceedings allocated to it by these presents;
- 7.3. The Council shall have power to make Bye-Laws and Regulations (not being inconsistent with the express provisions in these presents) in relation to the performance of the functions and powers of the Investigations Committee.

8. Complaints That Cannot Be Dealt with by the Association

- 8.1. Following the guidance in these presents relating to liability to disciplinary action, the Secretary has the authority to decide whether the Complaint is spurious or frivolous or vexatious or is not a matter that can be dealt with by the Association.
- 8.2. The Secretary shall make such a determination based solely on a written Complaint and its responses and further information provided as requested. No oral submission or evidence shall be accepted by the Secretary.
- 8.3. The Secretary shall take a decision within 28 days from the date of the final response received. The Secretary has the power to extend this time period if he feels an extension is required given the particular circumstances of the case.
- 8.4. The Secretary shall inform both the Complainant and the Member, Elected Member, Firm or Student of his decision in writing that the Complaint was a matter that the Association cannot deal with in line with these presents.

- 8.5. The Secretary shall report to the Investigations Committee on a quarterly basis in relation to Complaints where he has deemed them to be spurious or frivolous or a matter that the Association cannot deal with in line with these presents.

9. Resolution by Secretary

- 9.1. In the following circumstances the Secretary shall deem a Complaint closed and shall not present the matter to the Investigations Committee:
- (a) where both parties confirm, in writing, to the Secretary that the Complaint is resolved as a result of conciliation;
 - (b) where both parties confirm in writing to the Secretary that the Complaint is resolved otherwise than by conciliation; or
- 9.2. where the Complainant fails, refuses or neglects within 21 days to respond to a written request by the Secretary for confirmation as to whether he wishes to proceed with his complaint unless the Secretary shall deem there is prima facie evidence that would render a Member liable to disciplinary action. The Secretary in any circumstance shall present the Complaint to the Investigations Committee if he determines that these presents or the protection of the public interest requires that the Complaint be presented to the Investigations Committee.
- 9.3. The Secretary shall notify the Investigations Committee on a quarterly basis the cases that he deemed closed and the reasons for their being closed.

10. Referring a Complaint for Investigation

- 10.1. Anyone shall be entitled to bring to the attention of the Secretary any facts or matters which in his view indicate that a Member, Elected Member, Firm or Student may have become liable to disciplinary action and in such case it shall be the duty of the Secretary to acknowledge the Complaint and, without prejudice to Regulation 6 and 7 to refer the matter to the Investigations Committee unless the circumstances set out in Regulation 9 determine that the Complaint shall not be presented to the Investigations Committee. The Secretary shall forward a copy of the Complaint to the Member, Elected Member, Firm or Student as the case may be within 14 days of receipt and request a response within 14 days.
- 10.2. Anonymous complaints and assertions of a whistleblower as relating to parties covered by the Disciplinary Proceedings shall be accepted and shall be dealt with as appropriate taking into account the anonymity of the complainant.

- 10.3. Statutory Money Laundering Regulations take precedence over Disciplinary Procedures in these presents.

11. Investigations Process

- 11.1. Where any such reference is made to it, the Investigations Committee shall, after making such enquiries as it considers appropriate, have the power to call upon the receipt of the Complaint for such further information as is in his power to give as the committee may consider necessary to enable it to decide whether or not a prima facie case has been made out against the Respondent, and such further information as it considers necessary to carry out its duties. Before reaching such decision the Investigations Committee shall be satisfied that the Respondent has been given an opportunity of making written representations to it.
- 11.2. If the Investigations Committee is of the opinion that a prima facie case amounting to professional misconduct has or circumstances rendering him liable to disciplinary action under these presents have been made out against the Respondent and that the case ought to be referred to the Disciplinary Committee then it shall cause the Secretary to notify the Respondent of its decision and refer the case to that Committee and provide it with a summary of the facts and matters which were before the Investigations Committee.
- 11.3. If the Investigations Committee is of the opinion that there is no prima facie case to answer it shall advise the Secretary of its decision and the Secretary shall notify the Respondent and the Complainant of the decision together with the right of review.
- 11.4. In deciding whether a case ought to be referred to the Disciplinary Committee, the Investigations Committee shall be entitled to take into account any facts or matters which have been considered by the Investigations Committee on previous occasions in relation to the Respondent (in respect of which, although a prima facie case had been made out, no Complaint was referred to the Disciplinary Committee).
- 11.5. After referring any Complaint to the Disciplinary Committee in accordance with these presents, the Investigations Committee may make such further investigations and enquiries, call upon the Respondent to provide such further information and collect such further evidence in accordance with the Complaint as the Investigations Committee shall consider appropriate to enable the Complaint to be presented fully to the Disciplinary Committee.
- 11.6. The Investigations Committee may in its absolute discretion decide that the Complaint can be resolved through mediation or other appropriate dispute resolution process provided:

- (a) the Complainant and the Respondent agree to proceed via mediation or other appropriate dispute resolution process;
 - (b) the costs of the mediation process are borne by the parties to the Complaint and shall not be borne by the Association and are agreed in advance.
- 11.7. The Secretary shall notify the Investigations Committee as soon as reasonably possible when a Complaint is resolved by mediation or other appropriate dispute resolution process and shall notify the Investigations Committee of any finding agreed.
- 11.8. If the Complaint is resolved through mediation or other dispute process by the agreement of the Complainant and the Respondent to which the Investigations Committee concur the Investigations Committee shall have the power to impose with the consent of the Respondent and the Complainant the following sanctions:
- (a) a reprimand; and/or
 - (b) a fine which shall not exceed £3,000; and/or
 - (c) an order for costs the amount of which shall be entirely at the discretion of the Committee but shall not exceed £5,000
- and this finding against the Member shall be recorded.
- 11.9. Where a Complaint is settled by agreement the terms of that agreement shall be made the subject of a Consent Order and shall take effect from the date of that Consent Order.
- 11.10. There shall be no appeal from a Consent Order.
- 11.11. If the Complaint is not resolved through mediation or other dispute process by the agreement of the Complainant and Respondent the Investigations Committee shall have the power to continue the disciplinary process.

12. Complaints Reviewer

- 12.1. There shall be appointed by the Council as Complaints Reviewer a person who shall not be a Member or an Elected Member, with the Council having power in addition to the powers set out in these presents to indemnify him against civil liability. The Complaints Reviewer shall be appointed for a period of not less than three years and his appointment may be renewed.
- 12.2. The Complaints Reviewer shall consider any written application made by a Complainant for the review of a decision by the Secretary that a complaint cannot be dealt with by the Association provided such application is received not later than 28

days after the date of the decision complained of unless there is, in the opinion of the Complaints Reviewer, fresh evidence justifying such consideration outside that time limit.

- 12.3. The Complaints Reviewer shall consider any written application made by a Complainant for the review of a decision under the Investigations Committee that there is no prima facie case against a Respondent provided such application is received not later than 28 days after the date of the decision complained of unless there is, in the opinion of the Complaints Reviewer, fresh evidence justifying such consideration outside that time limit.
- 12.4. If, after consideration of such an application the Complaints reviewer is of the opinion that one or more of the circumstances referred to in paragraph 12.5 of this Regulation applies he shall remit the application to the Investigations Committee with a direction that it be reconsidered.
- 12.5. The circumstances referred to in paragraph 12.4 of this Regulation are that:
- (a) there has been received since the decision of the Investigations Committee complained of fresh evidence and such evidence justifies further consideration of the complaint;
 - (b) the Investigations Committee failed to follow a proper procedure for the investigation of a complaint;
 - (c) there is reason to suspect lack of independence on the part of any member of the Investigations Committee who took part in the decision complained of; or
 - (d) the Investigations Committee's decision was not one which could reasonably have been arrived at upon due consideration of the facts and matters before it;
 - (e) any other matter which in the opinion of the Complaints Reviewer casts doubt on the decision of the Investigations Committee.
- 12.6. The Secretary shall provide the Complaints Reviewer with such technical assistance as he reasonably requires.
- 12.7. Any application remitted to the Investigations Committee by the Complaints Reviewer in accordance with this Regulation shall be treated by the Investigations Committee as if it had been newly laid down before it by the Secretary under these presents except that:
- (a) the Investigations Committee shall have regard both to the information and representations previously available to it and to those which have been made available since the Investigations Committee came to its decision that no prima facie case existed; and

- (b) the Investigations Committee shall not refer a Complaint to the Disciplinary Committee until the Respondent has been given a further opportunity to make written representations to it.
- 12.8. If, following the remission of an application to the Investigations Committee by the Complaints Reviewer with a direction under paragraph 12.4 of this Regulation the Investigations Committee does not find a prima facie case, it shall give to the Complainant and to the Complaints Reviewer written reasons for its decision.
- 12.9. The Complaints Reviewer shall make a report to the Council annually in relation to cases reviewed in the previous 12 months.

13. Disciplinary Committee

- 13.1. The Disciplinary Committee shall consist of not less than five persons including the Chairman of whom not less than three shall be non-accountants and the others Members of the Association provided always that where the members of the Committee exceed five persons the majority shall always be non-accountants. The quorum for any meeting of the Committee shall be three of whom at least two shall be non-accountants. At any meeting of the Disciplinary Committee the quorum shall consist of a majority of non-accountants. Any meeting of the Committee at which a quorum is present shall be competent to discharge all the functions and to exercise all the powers conferred on the Committee pursuant to these presents. No member or former member of the Investigations Committee, who has been concerned with the complaint which is the subject of the hearing by the Disciplinary Committee, shall be eligible to hear the complaint as a member of the Disciplinary Committee.
- 13.2. The Disciplinary Committee shall have the power to:
- (a) conduct disciplinary proceedings including hearings in respect of matters referred to it by the Investigations Committee or other relevant committees of the Council;
 - (b) make findings in relation to disciplinary actions conducted against Members, Elected Members, Firms and Students;
 - (c) prescribe orders dealing with disciplinary offences;
 - (d) undertake such functions as are allocated to it under these presents.
- 13.3. The Council shall have power to make Bye-Laws and Regulations (not being inconsistent with the express provisions of the Articles) in relation to the performance of the functions and powers of the Disciplinary Committee.

14. Disciplinary Process

- 14.1. When a Complaint is referred to the Disciplinary Committee by the Investigations Committee under these presents the Disciplinary Committee shall cause the Secretary to notify the Respondent of the nature of the Complaint and of the time and place fixed for the hearing thereof. A copy of such notification shall give at least 21 days' notice of the hearing. The Respondent shall be given a reasonable opportunity to be heard before the committee and shall be permitted to be represented by such persons as he may wish and to call witnesses and cross-examine witnesses called against him. The Respondent shall be further entitled to provide the Committee with a written summary of his arguments in defence. If the Respondent does not attend the hearing fixed as aforesaid, then provided that the Committee is satisfied that notice thereof was given to the Respondent, the Committee may proceed to hear the complaint in the absence of the Respondent.
- 14.2. The Investigations Committee may appoint such persons as it thinks fit to present the formal Complaint before the Disciplinary Committee and may instruct a solicitor to present or brief Counsel to present such Complaint. The Disciplinary Committee may appoint a solicitor to act or brief Counsel to act as legal adviser to the Disciplinary Committee on the hearing of any Complaint.
- 14.3. The Disciplinary Committee shall permit the Complainant and a representative of the relevant regulatory authorities to be present but not take part in hearings.
- 14.4. A Respondent may, at any time after receipt by him of the notice referred to in paragraph 14.1 above give written notice to the Secretary that he desires to admit that the Complaint against him is wholly true without appearing before the Disciplinary Committee. Such notice may be accompanied by a submission which the Respondent wishes to place before the Disciplinary Committee when deciding what Order (if any) to make under paragraph 14.5. Where such a notice has been received by the Secretary, the Disciplinary Committee shall proceed to hear and dispose of the Complaint in the absence of the Respondent. In such a case, the Disciplinary Committee shall not permit any facts to be placed before it by the person presenting the Complaint of which notice had not previously been given to the Respondent (without first adjourning the hearing for this to be done) and any such submission of the Respondent shall be read before it.
- 14.5. If the Disciplinary Committee is of the opinion that the Complaint has been proven in whole or in part, it shall make a finding to that effect and it may thereupon make any one or more of the following Orders against the Respondent as it considers appropriate having regard to the status of the Respondent and the Committee's views as to the nature and seriousness of the Complaint and any other circumstances which the Committee considers relevant:

- (a) in relation to a Member:
- i. that he be excluded from membership;
 - ii. that he be suspended from membership for whatever period the Committee considers appropriate;
 - iii. that he be reprimanded, severely reprimanded or admonished;
 - iv. that he be suspended from practice for whatever period the Committee considers appropriate;
 - v. that he be declared ineligible for a Practising Certificate;
 - vi. that the Practising Certificate be withdrawn;
 - vii. to impose restrictions or conditions on a member's Practising Certificate;
 - viii. that he be ordered to pay a fine commensurate with appropriate and relevant statutory or regulatory requirements or such other sum as from time to time may be prescribed;
 - ix. that he be ordered to pay costs.
- (b) in relation to a Student:
- i. that he be removed from the Student register;
 - ii. that a period specified in the order be disregarded as part of the Student's professional experience;
 - iii. that he be declared ineligible for any period specified in the order to sit for any examination or examinations of the Association or such part or parts as may be specified in the order;
 - iv. that he be disqualified from such examination or examinations of the Association (or such part or parts thereof) as shall be specified in the Order, not being an examination or part thereof the result of which shall have been notified by the Association prior to the date of the Order;
 - v. that he be admonished, reprimanded or severely reprimanded;
 - vi. that he shall be declared unfit to become a member;
 - vii. that he be ordered to pay a fine commensurate with appropriate and relevant statutory or regulatory requirements or such other sum as from time to time may be prescribed;
 - viii. that he be ordered to pay costs.

- (c) in relation to a Firm or Supervised Member:
- i. that any certificates, or authorisations granted by the Association to the Firm or Supervised Member be withdrawn or suspended for such period as the Disciplinary Committee thinks fit;
 - ii. that any Members of the Firm or Supervised Members who are wholly or mainly responsible for the complaint be excluded from membership;
 - iii. that it or he be reprimanded or severely reprimanded;
 - iv. that it (a Firm) be prohibited from styling itself as “International Accountant” or anything similar notwithstanding that these presents prevent Supervised Members from describing themselves as an “International Accountant”;
 - v. that it or he be fined an amount commensurate with appropriate and relevant statutory or regulatory requirements or such other sum as from time to time may be prescribed per partner or relevant individual(s) in the Firm;
 - vi. that it or he be ordered to pay costs.

- (d) in relation to an Elected Member:
- i. that his Honorary, Supervised Member or Academic Fellow status be withdrawn;
 - ii. that his Honorary, Supervised Member or Academic Fellow status be suspended for such period as the Committee thinks fit;
 - iii. that he be admonished, reprimanded or severely reprimanded;
 - iv. that he be fined a sum commensurate with appropriate and relevant statutory or regulatory requirements or such other sum as from time to time may be prescribed;
 - v. that he be ordered to pay costs.

14.6. Any Order made under paragraph 14.5 above of this Regulation ought to be made and published within 21 days from the date of the conclusion of the proceedings unless there are extenuating circumstances. Such an Order may be made upon such terms and conditions (if any) as the Disciplinary Committee may consider appropriate including a direction that a Member, Elected Member, Firm or Student obtains advice from such source as the Committee may prescribe but if notwithstanding its finding that a complaint has been proved the Disciplinary Committee is of the opinion that in all the circumstances of the case no such order as

aforesaid is appropriate, it may make an order that no further action be taken on the Complaint.

- 14.7. Where the conduct of a Student has been referred to the Investigations Committee the results of any Association examinations taken by the Student which have not yet been notified to him shall not be so notified until the Complaint has been disposed of in accordance with these presents.
- 14.8. The Disciplinary Committee shall announce its decision at the hearing. If the Committee requires further time to deliberate on its decision the Committee shall adjourn the hearing to the first available date when it can announce its decision. The Committee shall invite the Respondent, the Complainant and a representative of any relevant regulatory body to attend the adjourned hearing. Where the Respondent is in attendance at the time the decision is announced, the Committee shall orally inform him of his right to appeal to the Appeals Committee.
- 14.9. Following the decision the Secretary shall give notice of the decision in the form of an Order to the Respondent and shall notify the Complainant of the decision. Where the decision upholds any part of the Complaint made against him the Secretary shall notify the Respondent in writing of his right to appeal together with the time in which he is obliged to appeal.
- 14.10. An Order of the Disciplinary Committee shall take effect from the date of the expiry of the appeal period referred to in Regulation 16.1, unless the Respondent shall give notice of appeal before such period expires. Where any notice of appeal is given, the Order of the Disciplinary Committee, as varied or affirmed by the Appeals Committee, shall take effect from the date referred to in Regulation 16.8. Notice of the Order shall be sent to the Respondent by registered post or recorded delivery to his last known address and shall be reported to the Council.
- 14.11. If the Respondent does not appeal within the prescribed time or within the period of any extension granted by the Committee on the written application of the Respondent setting out the reasons for the delay the decision shall take effect and the Disciplinary Committee shall cause that decision to be entered into the Register of Orders referred to in Regulation 20.1.
- 14.12. The Disciplinary Committee shall after the publication and notification of its findings to the Respondent and Complainant be entitled to ask the Secretary for details of the Respondent's previous disciplinary record which record the Disciplinary Committee shall take into account when considering the Order to be made against the Respondent.

15. Appeals Committee

- 15.1. The Appeals Committee shall consist of not less than five persons of whom:
- (a) one (who shall be chairman) shall be a lawyer;
 - (b) not less than two others shall be non-accountants; and
 - (c) the others shall be Members of the Association.
- 15.2. Irrespective of the number of persons appointed to the Appeals Committee for the purposes of the appeal non-accountants shall always be in the majority.
- 15.3. The quorum for any meeting of the Appeals Committee shall be three, which Appeals Committee shall include the chairman and at least one other non-accountant. Any meetings of the Committee at which a quorum is present shall be competent to discharge all the functions and to exercise all the powers conferred on the Appeals Committee pursuant to these presents.
- 15.4. The Appeals Committee shall have the power:
- (a) to determine the appeals against the findings and Orders (including the sanction comprised in the Order) of the Disciplinary Committee;
 - (b) to make Orders following the hearing of such appeals;
 - (c) to undertake such functions as are allocated to it under these presents.
- 15.5. The Council shall have the power to make Bye-Laws and Regulations (not being inconsistent with the express provisions in these presents) in relation to the performance of the functions and powers of the Appeals Committee.

16. Appeals Process

- 16.1. The Respondent (in this Regulation called "the Appellant") may within 21 days of service of the Order of the Disciplinary Committee give notice of appeal. Any such notice shall be in writing addressed to the Secretary and shall state whether the Appellant appeals against the findings of the Disciplinary Committee, or against the Order or Orders made against the Appellant pursuant to Regulation 14.5 (and an appeal against the Order or Orders so made may be lodged conditionally upon an appeal against the findings failing). The notice of appeal shall state the grounds of appeal and shall state whether the Appeal is limited to the sanction imposed or otherwise and the grounds so stated shall not thereafter be amended except with the leave of the Appeals Committee.

- 16.2. The Secretary shall notify the Appellant, the Complainant and the relevant regulatory body of the time and place of the hearing of the Appeal. The notification shall give at least 21 days' notice of the hearing. The Appellant shall be entitled to be heard before the Committee and to be represented by such persons as he may wish and to call witnesses and cross-examine witnesses called against him. If the Appellant does not attend the hearing fixed as aforesaid then provided that the Appeals Committee is satisfied that notice of the hearing was given to the Appellant, the Appeals Committee may proceed to hear the appeal in the absence of the Appellant.
- 16.3. If the Respondent wishes to appeal solely against the sanction imposed by the Order the Respondent shall notify the Secretary to that effect in the notice of appeal and at least fourteen days before the date fixed for the hearing of the Appeal provide to the Appeals Committee any evidence which is relevant to the sanction imposed including any matter pleaded in mitigation. On the hearing of the Appeal the Appeals Committee shall take into account such evidence but shall not be obliged to consider or hear any other evidence whether provided to the Disciplinary Committee or otherwise.
- 16.4. The Complainant shall be entitled to be present but not take part or be represented at the hearing. A representative of the relevant regulatory body shall also be entitled to be present at but not take part in the hearing.
- 16.5. The Disciplinary Committee may appoint such person as it thinks fit to appear on an appeal or may instruct a solicitor to appear on or to brief Counsel to appear on such appeal. The Appeals Committee may appoint a solicitor to act or to brief Counsel to act as legal adviser on its behalf on the hearing of any appeal.
- 16.6. An Appellant (whether a Member, Elected Member, Firm or Student) shall in his notice of appeal given pursuant to paragraph 16.1 above state that he desires to appeal against the Order or Orders made against him pursuant to Regulation 14.5 without appearing before the Appeals Committee. Such notice may be accompanied by a submission including any plea in mitigation which the Appellant wishes to be taken into account by the Appeals Committee when deciding what action to take pursuant to paragraph 16.8 of this Regulation. Where the notice of appeal contains such a statement, the Appeals Committee shall proceed to hear and dispose of the appeal in the absence of the Appellant, in like manner as if the Appellant had been present, save that the Appeals Committee shall not proceed in this manner where the appeal relates to matters of public interest or concerns complaints which raise issues of serious professional misconduct.
- 16.7. On any Appeal, other than an Appeal relating solely to the sanction imposed the Appeals Committee shall take into consideration the record of the evidence given before and the documents produced to the Disciplinary Committee on its hearing of

the formal complaint and may in its absolute discretion re-hear any witness called before the Disciplinary Committee and may on special grounds (as to which the Appeals Committee shall be the sole judge) receive fresh evidence.

- 16.8. On any appeal, the Appeals Committee may affirm, vary and rescind any Order of the Disciplinary Committee and may substitute any other Order or Orders (on such terms and conditions, if any, as it thinks appropriate) which the Disciplinary Committee might have made or may, if the Appeals Committee considers it appropriate, order that the complaint be heard afresh by the Disciplinary Committee. An Order of the Appeals Committee shall take effect from the date thereof unless the Appeals Committee, in its absolute discretion, directs that it shall take effect as from some other date (not being earlier than the date of the Order appealed against) as shall be specified in the Order.
- 16.9. Notice of the decision of the Appeals Committee shall be sent to the Appellant by the Secretary by registered post or recorded delivery to his last known address and shall be reported to the Council.

17. Hearing in Public

- 17.1. All hearings of the Disciplinary Committee and the Appeals Committee shall be held in public unless the Disciplinary Committee or the Appeals Committee decides in its absolute discretion that the holding of a hearing or any part thereof in public would be inappropriate.
- 17.2. An application can be made to the Disciplinary Committee or in the case of an Appeal to the Appeals Committee for the hearing or part of the hearing to be held in private. Such application must be made at least 14 days before the date fixed for the hearing before the Disciplinary Committee or the Appeals Committee and be supported by reasons.
- 17.3. On receipt of such an application the Secretary shall give notice to the Complainant of the application and provide copies of the reasons that have been given. Such notice shall be given to the Complainant at least 21 days before the hearing. The notice shall invite responses in writing from the Complainant and provide that any responses shall be sent to the Secretary to arrive at least 5 days before the hearing.
- 17.4. In determining whether or not a hearing should be held in private the Disciplinary Committee and the Appeals Committee shall:
 - (a) take into account any of the Association's Articles, Bye-Laws and Regulations;
 - (b) take into account submissions or representations of the Complainant; and,

- (c) give the Complainant, and the Respondent, an opportunity to be heard before it on the subject; and
- (d) consider whether:
 - i. publicity would defeat the object of the hearing;
 - ii. the subject matter of the hearing involves matters of national security;
 - iii. a private hearing is necessary for the protection of the interests of children or patients;
 - iv. the subject matter of the hearing would involve confidential information (including information relating to personal financial matters) and publicity would damage that confidentiality;
 - v. it is necessary for the protection of the private life of any of the parties to the proceedings; or
 - vi. it is necessary in the interests of justice.

17.5. Where the Disciplinary Committee or the Appeals Committee determine that any hearing or part of a hearing shall be heard in private then that hearing or part thereof shall be held in private.

17.6. There shall be no appeal to the Appeals Committee solely on the issue of whether or not a hearing or part of a hearing shall be heard in private.

18. Postponement of Hearing

18.1. Where any criminal or civil proceedings are pending to which a Respondent or an Appellant is a party, being proceedings which in the opinion of the relevant committee relate to a Complaint referred to the Investigations Committee, the Disciplinary Committee or to an appeal before the Appeals Committee, the committee in question may, in its discretion, postpone the hearing of the Complaint or Appeal (as the case may be) for such period or periods as it shall consider expedient.

19. Costs of Disciplinary Procedures

19.1. Any order made under Regulation 13 or 15, including an order that no action be taken, may direct:

- (a) where the Respondent/Appellant is a Member, Elected Member, Student or Firm, that he pay a sum or sums by way of costs to the Association;

- (b) in determining what sum or sums shall be paid by the Respondent/Appellant under this paragraph, the Disciplinary Committee and the Appeals Committee shall take into account any reduction in the costs of dealing with the Complaint against the Respondent/Appellant which has resulted from his having given a notice of the kind referred to in Regulations 13 or 15.
- (c) Any costs so ordered to be paid shall be paid within 21 days of the date of the service upon the Respondent/Appellant of the order save that, if notice of appeal is given such costs shall not be payable until the determination of the appeal and then subject to any order made by the Appeals Committee thereon.
- (d) No appeal shall lie solely on the question of costs.

20. Register of Disciplinary Decisions and Orders

- 20.1. The Association shall keep and maintain a Register of all Orders and findings made by the Investigations, Disciplinary and Appeals Committees.
- 20.2. The Register shall be open to inspection during normal office hours and be kept at the head office of the Association.
- 20.3. All entries shall contain the following information:
 - (a) details of the complaint;
 - (b) the findings and the Order including any findings made in proceedings culminating in a Consent Order together with the Consent Order made;
 - (c) the name and address of the person or persons against whom the findings or Order (including a Consent Order) was made;
 - (d) the status of the Member, Elected Member, Firm or Student against whom the findings or Order or Consent Order was made.
- 20.4. No entry shall be made on the Register until such time as the period for any appeal against a finding or Order of the Disciplinary Committee has expired.
- 20.5. Unless otherwise provided for by the terms of the Order any entry on the Register shall be expunged from the Register after 7 years.
- 20.6. If a person believes that an error has been made in respect of any entry entered on the Register he can apply to the Secretary with a view to having the error rectified. Where the Secretary determines that an error has occurred he shall forthwith rectify the register and give notice of such rectification to any interested person.

21. Publication of Decisions and Orders

- 21.1. Where the Disciplinary Committee or the Appeals Committee makes an Order other than an Order dismissing or providing for no further action to be taken the relevant Committee shall instruct the Secretary:
- (a) to publish the findings and the Order in such relevant media as the Council have determined as soon as reasonably practicable after the decision has been notified to the Respondent and/or the Appellant;
 - (b) to report the findings and Order to the relevant regulatory body if so required under any statutory enactment or otherwise;
 - (c) to require in an appropriate case for the Member or Firm to return all certificates and authorisations to the Association.
- 21.2. If the Disciplinary Committee or Appeals Committee dismisses the Complaint and decides that no further action need be taken the relevant Committee shall at the request of the Respondent instruct the Secretary to publish the findings and the Order in accordance with Regulation 21.1(a).

22. Examinations Disciplinary Proceedings

- 22.1. The Association shall have in place committees, policies and proceedings with respect to disciplinary action specific to students including authorised study providers; and appointed venues. Examinations in this context means those for achieving admission to membership including such examinations as may be offered by the Association from time to time.

Examination, Qualifications & Training Regulations

1. Citation, commencement and application

- 1.1. These regulations may be cited as The Association of International Accountants' Examination, Qualifications & Training Regulations 2021.
- 1.2. These regulations as amended shall come into force on 9 April 2021.
- 1.3. These regulations shall apply to all persons who are subject to these presents or who otherwise agree to be bound by them.
- 1.4. These regulations may be amended by resolution of the Council.

2. Definitions and Interpretation

- 2.1. The definitions and interpretations for these Regulations are as defined and set out in Article 1.

3. Professional Qualification

- 3.1. The Association's professional examinations for admission to membership and for progression to the Recognised Professional Qualification as Statutory Auditor, in whatever form offered, shall take account of relevant legal and statutory standards and requirements, and requirements (including any directions) of regulators with a role in relation to the Association's qualifications and shall reflect needs and developments in the accountancy profession.

4. Examinations

- 4.1. The examinations of the Association shall be in such form as the Council may determine after consideration of proposals and recommendations from the Qualifications Committee.

5. Place of Examination

- 5.1. The examinations of the Association shall be held at a frequency and in such places as the Qualifications Committee may from time to time determine and authorise.

6. Special Examination Centres

- 6.1. The Qualifications Committee, in their discretion, may make special arrangements from time to time for the examination of candidates in any part of the world, upon such terms as they may determine.

7. Invigilators at Examinations

- 7.1. The Qualifications Committee may appoint one or more members of the Association or other suitable persons to preside at and supervise the examinations of the Association upon such terms and with such remuneration as they may think fit.

8. Notice to be Given by Candidate

- 8.1. Every candidate at least six weeks before the examination at which he proposes to present himself, shall give notice to the Association of his desire to be examined, such notice to be in the appropriate form, and shall pay the fee payable in respect of such examination.

9. Candidates to be Referred to by Number Only

- 9.1. Each candidate for an examination shall have a number assigned to him, and he shall be referred to by such a number until after the adoption by the Council of the report of the Qualifications Committee as to the result of his examination.

10. Failure to Pass

- 10.1. A candidate who has failed to pass any examination to the satisfaction of the Council may present himself again at any subsequent examination, save that the Council, in their discretion, may refuse to allow any such person so to present himself.

11. Examination Fees

- 11.1. Every candidate on the occasion of making an application to present himself for examination shall pay an examination fee, as may be determined for the time being by the Council.

12. No Fees to be Returned

- 12.1. If a candidate withdraws his name or fails to present himself for examination, for any reason whatsoever, no part of the fee shall be returned to him.

13. Council May Refuse Permission to Take Examinations

- 13.1. The Council may in their absolute discretion refuse to allow any person to present himself for any examination of the Association without notifying any reason for such refusal.

14. Re-Registration

- 14.1. If a candidate fails to complete the professional examination within the prescribed period, as may be determined by the Council from time to time, then the Council shall not be required to credit him on re-registration with any passes previously obtained.

15. Issue of Certificates

- 15.1. Upon the adoption by the Council of the report of the Qualifications Committee a certificate to the effect that a candidate has passed the Professional Examinations, the Foundation Examination, or the Recognised Professional Qualification for the purposes of Part 42, or any other qualification so offered by the Association, to the satisfaction of the Qualifications Committee shall be issued to every Student or Member entitled thereto,
- 15.2. In the case of the Professional Examination the Certificate shall be issued subject to an application for membership having been received.

16. Conditions of Entry

- 16.1. No person shall be admitted to present himself for any part of the Examinations unless he is a Student of the Association.
- 16.2. No candidate shall be permitted to present himself for any part of the Examinations, unless he has satisfied the requirements relating to entry thereto.

17. Academic Appointments

- 17.1. The Council may appoint suitably qualified persons to be Examiners, Moderators, Test Sitters or any other member of the Association's academic team.
- 17.2. Individuals appointed to the academic team of the Association shall receive such remuneration as the Council shall from time to time determine.

18. Study Preparation for Examinations

- 18.1. A Student registered with the Association with a view to taking the professional examinations of the Association may attend a full-time or part-time course of study in preparation therefore or undertake a course as specified by the Association or prepare by private study.

19. Examinations for Membership of Association

- 19.1. No person shall be awarded a qualification in accountancy by the Association unless he has passed (or been exempted therefrom in accordance with these presents) examinations at increasing difficulty testing theoretical knowledge and ability to apply that knowledge in practical situations:
 - (a) by achieving a standard of attainment at least equivalent to that required to obtain a degree from a university or similar establishment in the UK; or
 - (b) as a Student, or other person, he has obtained qualification at the equivalent levels in the Association's professional examinations.
- 19.2. For non-UK students, papers examining the requirements of Company Law and Taxation and Tax Planning may be based on local law in the place of UK law.
- 19.3. A Student may be exempted from the requirement to undergo examination of his theoretical knowledge of any one or more of the subjects offered by the Association in accordance with the specifications of the relevant regulators and requirements in force at the time.

20. Requirement for Approved Accountancy Experience Prior to Membership

- 20.1. No Student shall be entitled to be admitted to be a Member of the Association (as an Associate) unless he has completed at least three years' experience in accountancy which in the opinion of the Council is satisfactory and obtained before or after, or partly before and partly after the passing of the Association's examinations.

21. Application for Membership on Passing Examinations

- 21.1. On completion of the professional examinations of the Association a Student who desires to become a member of the Association shall make application for such membership within one year of passing the examination (whether or not he has then completed the necessary period of accountancy experience). Should he not do so his name shall be removed from the register of Students and the Council shall not be bound at any time to give consideration to an application from him for admission to membership.
- 21.2. If at the time of such application the Student is still undergoing the requisite period of accountancy experience then the Council shall defer admission to membership until that experience has been satisfactorily obtained.

22. Course of Study Leading to Examination for Recognised Professional Qualification

- 22.1. A Student registered with the Association with a view to taking the examinations of the Association for a Recognised Professional Qualification shall complete a course of theoretical instruction in preparation therefore approved by the Association.

23. Examination for Recognised Professional Qualification

- 23.1. No person shall be awarded a Recognised Professional Qualification for the purposes of Part 42 unless he has passed (or been exempted therefrom in accordance with these presents) examinations at increasing levels of difficulty testing in writing and orally, theoretical knowledge and ability to apply in practical situations that knowledge of the subjects set out in Schedule 11 of the Act for the time being in force by achieving a standard of attainment at least equivalent to that required to obtain a degree from a university or similar establishment in the UK.
- 23.2. The Recognised Professional Qualification may be awarded to a person without his theoretical knowledge of the subjects referred to in paragraph 23.1 being tested at lower levels by examination if he has passed a university or other examination of equivalent standard in that subject or holds a university degree or equivalent qualification in it approved by the Secretary of State for the purposes of Part 42 so long as his theoretical knowledge and his ability to apply in practical situations that knowledge of the subjects prescribed by Schedule 11 of the Act are examined elsewhere at a higher level within the Recognised Professional Qualification.

- 23.3. The subjects referred to in paragraph 23.1 shall include UK Company Law and UK Taxation.
- 23.4. No person shall be awarded a Recognised Professional Qualification for the purposes of Part 42 unless he has been admitted to Associate Membership of the Association and has completed at least three years practical training, which may run concurrently with the professional examinations, of which:
- (a) not less than 52 weeks was spent being trained in statutory audit work or other audit work of a description approved by the Secretary of State as being similar to statutory audit work for the purposes of Part 42 provided always that not less than 26 weeks was spent in being trained in statutory audit work; and
 - (b) at least two-thirds of such training has been given by a Statutory Auditor approved and monitored by the Council for practical training purposes and from whom the Council has received undertakings that they will provide training of an adequate standard.

24. Recognition of Courses of Study

- 24.1. The Council shall have power to recognise courses of study provided by other persons or bodies to be attended by Students seeking a professional qualification in accountancy or a Recognised Professional Qualification for the purposes of Part 42 offered by the Association and to define the circumstances in which such recognition may be withdrawn.

25. Council May Award Prizes or Rewards

- 25.1. The Council may employ, or direct the Qualifications Committee to employ, any part of the funds of the Association in the provision of prizes, medals, scholarships, exhibitions or rewards in connection with the examinations held by the Association.

Continuing Professional Development Regulations

1. Citation, commencement and application

- 1.1. These regulations may be cited as The Association of International Accountants' Continuing Professional Development Regulations 2021.
- 1.2. These regulations as amended shall come into force on 9 April 2021.
- 1.3. These regulations shall apply to all persons who are subject to the bye-laws or who otherwise agree to be bound by them.
- 1.4. These regulations may be amended by resolution of the Council.

2. Definitions and Interpretation

- 2.1. The definitions and interpretations for these Regulations are as defined and set out in Article 1.

3. Requirements and Annual Declaration

- 3.1. All Members shall obtain CPD (units) and comply with associated requirements in accordance with this Regulation and these presents. Such members who are in full retirement are exempted from the CPD requirements.
- 3.2. At least 120 units (one unit being equivalent to one hour) of acceptable CPD activity relevant to the Member's current role and development are required to be completed within a three year period, commencing on 1 October in a year, with at least 60 of those hours required to be CPD which are independently verified and with at least 20 hours of CPD which can be independently verified to be completed each year and thereafter in each successive three year period.
- 3.3. In the case of Members in public practice an appropriate proportion of the CPD must be relevant to the specialised areas of their practice.
- 3.4. In the case of Members in public practice at least one unit of anti-money laundering training must be completed within each annual period.
- 3.5. Members subject to this Regulation shall submit to the Association on or before 1 October in every year an annual declaration of CPD completed together with, where it applies, confirmation of involvement in the preparation of publicly available financial statements.

4. Requirement to Keep Records

- 4.1. In addition to making an annual declaration, a Member must keep continuous record of CPD undertaken, and retain evidence supporting his CPD record for each successive three-year period.
- 4.2. In the case of Members in public practice records in respect of CPD completed in the year are required to be submitted to the Association with the annual declaration.
- 4.3. Such records and supporting evidence shall be subject to review and verification by the Association, and are required to be submitted, on request in writing, to the Association. As part of its monitoring process the Association shall periodically audit a sample of Members to check compliance with the CPD requirements.

5. Failure to Comply with Requirements

- 5.1. Failure to comply with the CPD and associated requirements may render a Member liable to disciplinary proceedings and, in the case of a Member in practice, will make him ineligible to renew his Practising Certificate.

6. Guidelines

- 6.1. Guidelines shall be issued to Members in respect to CPD and associated requirements as described in this Regulation. Such guidelines shall include information about activities which qualify as CPD and regarding items which will be accepted as evidence of CPD.

Code of Ethics

As per the Code of Ethics in force at the time as agreed by the AIA Council and provided to Members, updated from time to time.

This Code of Ethics as amended shall come into force on 17 June 2021.

AIA has adopted the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants and, in agreement with IFAC, AIA members are bound by the Constitution to observe this Code.

The Code is updated on an annual basis and members should ensure they have read the most recent version.

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More information on professional ethics for AIA members is available at www.aiaworldwide.com/insights/ethics/.

Members can find more information on the standards and rules applicable to their area of practice at www.aiaworldwide.com/my-aia/ethics

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HANDBOOK OF THE INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

2020 EDITION

How This Handbook Is Arranged

The contents of this Handbook are arranged by section as follows:

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IFAC recognizes that it is important that preparers and users of financial statements, auditors and other professional accountants, regulators, national standard setters, IFAC member bodies, lawyers, academia, students, and other interested groups in non-English-speaking countries have access to the standards in their native language. IFAC therefore encourages and facilitates the reproduction, or translation and reproduction, of its publications.

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INTRODUCTION TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS®

The International Ethics Standards Board for Accountants® (IESBA®) is an independent standard-setting body that develops an internationally appropriate *International Code of Ethics for Professional Accountants*™ (including *International Independence Standards*™) (the Code).

The objective of the IESBA, as outlined in its Terms of Reference, is to serve the public interest by setting high-quality ethics standards for professional accountants. The IESBA's long-term objective is convergence of the Code's ethical standards for professional accountants, including auditor independence standards, with those issued by regulators and national standard setters. Convergence to a single set of standards can enhance the quality and consistency of services provided by professional accountants throughout the world and can improve the efficiency of global capital markets.

The IESBA consists of 18 board members from around the world, of whom no more than 9 are practitioners and no fewer than 3 are public members (individuals who are expected to reflect, and are seen to reflect, the wider public interest). Members are appointed by the IFAC Board, based on recommendations from the IFAC Nominating Committee and with the approval of the Public Interest Oversight Board (PIOB), which oversees the activities of the IESBA.

The standard-setting process of the IESBA includes the involvement of the PIOB and the IESBA's Consultative Advisory Group (CAG), which provides public interest input into the development of the IESBA's standards and guidance.

In developing its standards, the IESBA is required to be transparent in its activities, and to adhere to due process as approved by the PIOB. Board meetings, including meetings by teleconference, are open to the public, and agenda papers are available on its website.

Please visit www.ethicsboard.org for more information.

THE INTERNATIONAL FEDERATION OF ACCOUNTANTS' ROLE

The International Federation of Accountants (IFAC) serves the public interest by contributing to the development of strong and sustainable organizations, markets, and economies. It advocates for transparency, accountability, and comparability of financial reporting; helps develop the accountancy profession; and communicates the importance and value of accountants to the global financial infrastructure. Founded in 1977, IFAC is currently comprised of more than 175 members and associates in more than 130 countries and jurisdictions, representing almost 3 million accountants in public practice, education, government service, industry, and commerce.

As part of its public interest mandate, IFAC contributes to the development, adoption, and implementation of high-quality international ethics standards for accountants, primarily through its support of the IESBA. IFAC provides human resources, facilities management, communications support, and funding to this independent standard-setting board, and facilitates the nominations and selection process for board members.

The IESBA sets its own agendas and approves its publications in accordance with its due process and without IFAC's involvement. IFAC has no ability to influence the agendas or publications. IFAC publishes the handbooks, standards, and other publications and owns the copyrights.

The IESBA's independence is safeguarded in a number of ways:

- formal, independent public interest oversight for standard setting by the PIOB (see www.ipiob.org for more information), which includes a rigorous due process involving public consultation;
- a public call for nominations, and formal, independent oversight of the nominations/selection process by the PIOB;
- full transparency, both in terms of due process for standard setting, as well as public access to agenda materials, meetings, and a published basis for conclusions with each final standard;
- the involvement of a Consultative Advisory Group and observers in the standard setting process; and
- the requirement that IESBA members, as well as nominating/employing organizations, commit to the board's independence, integrity, and public interest mission.

Visit the IFAC website at www.ifac.org for further information.

SCOPE OF THIS HANDBOOK

2020 EDITION

This handbook brings together for continuing reference information about the role of IFAC and the official text of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) issued by the IESBA.

CHANGES OF SUBSTANCE FROM 2018 EDITION

This handbook replaces the 2018 edition of the *Handbook of the Code of Ethics for Professional Accountants*.

Changes

The 2020 edition of the handbook contains the following:

- *Revisions to Part 4B of the Code to reflect terms and concepts used in International Standard on Assurance Engagements (ISAE) 3000 (Revised)*. The revised Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after June 15, 2021; otherwise, it will be effective as of June 15, 2021. Early adoption is permitted. Conforming changes have been made to the Glossary of the Code. The changes were published on the IESBA website in January 2020. The changes can be accessed using the [IESBA eCode](#).
- *Revisions to promote the role and mindset expected of professional accountants*. Among other matters, the revisions reinforce aspects of the principles of integrity, objectivity, and professional behavior; raise behavioral expectations of all professional accountants through requiring them to have an inquiring mind as they undertake their professional activities; emphasize the need for accountants to be aware of the potential influence of bias in their judgments and decisions; and highlight the supportive role organizational culture can play in promoting ethical conduct and business. The role and mindset changes are to Sections 100, 110, 120, 220 and the Glossary to the Code and will be effective as of December 31, 2021. Early adoption is permitted. The changes were published on the IESBA website in October 2020. The changes can be accessed using the [IESBA eCode](#).

Changes to the Code Issued Subsequent to December 2020 and Exposure Drafts

For information on recent developments and to obtain final pronouncements issued subsequent to December 2020 or outstanding exposure drafts, visit the IESBA's website at www.ethicsboard.org.

GUIDE TO THE CODE

(This Guide is a non-authoritative aid to using the Code.)

Purpose of the Code

1. The *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“the Code”) sets out fundamental principles of ethics for professional accountants, reflecting the profession’s recognition of its public interest responsibility. These principles establish the standard of behavior expected of a professional accountant. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.
2. The Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help accountants apply the conceptual framework to those topics.
3. In the case of audits, reviews and other assurance engagements, the Code sets out *International Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to these engagements.

How the Code is Structured

4. The Code contains the following material:
 - Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.
 - Part 2 – *Professional Accountants in Business*, which sets out additional material that applies to professional accountants in business when performing professional activities. Professional accountants in business include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:
 - Commerce, industry or service.
 - The public sector.
 - Education.
 - The not-for-profit sector.
 - Regulatory or professional bodies.

Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.

- Part 3 – *Professional Accountants in Public Practice*, which sets out additional material that applies to professional accountants in public practice when providing professional services.
 - *International Independence Standards*, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.
 - *Glossary*, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term “audit engagement” applies equally to both audit and review engagements. The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.
5. The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:
- Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
 - Requirements – establish general and specific obligations with respect to the subject matter addressed.
 - Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to Use the Code

The Fundamental Principles, Independence and Conceptual Framework

6. The Code requires professional accountants to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires exercising professional judgment, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.

7. The conceptual framework recognizes that the existence of conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the professional accountant's evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires the accountant to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level.
8. In addition, the Code requires professional accountants to be independent when performing audit, review and other assurance engagements. The conceptual framework applies in the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.
9. Complying with the Code requires knowing, understanding and applying:
 - All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 200, 300, 400 and 900, as applicable.
 - All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled "General" and "All Audit Clients" together with additional specific provisions, including those set out under the subheadings titled "Audit Clients that are not Public Interest Entities" or "Audit Clients that are Public Interest Entities."
 - All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

Requirements and Application Material

10. Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

Requirements

11. Requirements are designated with the letter "R" and, in most cases, include the word "shall." The word "shall" in the Code imposes an obligation on a professional accountant or firm to comply with the specific provision in which "shall" has been used.
12. In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter "R" but uses "may" or conditional wording.
13. When the word "may" is used in the Code, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

14. When the word “might” is used in the Code, it denotes the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

Application Material

15. In addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. Application material is designated with the letter “A.”
16. Where application material includes lists of examples, these lists are not intended to be exhaustive.

Appendix to Guide to the Code

17. The Appendix to this Guide provides an overview of the Code.

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<p>PART 2 PROFESSIONAL ACCOUNTANTS IN BUSINESS (SECTIONS 200 TO 299) (PART 2 IS ALSO APPLICABLE TO INDIVIDUAL PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE WHEN PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM)</p>	<p>PART 3 PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE (SECTIONS 300 TO 399)</p>
	<p>INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B) PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS (SECTIONS 400 TO 899) PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS (SECTIONS 900 TO 999)</p>
	<p>GLOSSARY (ALL PROFESSIONAL ACCOUNTANTS)</p>

HANDBOOK OF THE INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

(including INTERNATIONAL INDEPENDENCE STANDARDS)

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PREFACE

The IESBA develops and issues, under its own standard setting authority, the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“the Code”). The Code is for use by professional accountants around the world. The IESBA establishes the Code for international application following due process.

The International Federation of Accountants (IFAC) establishes separate requirements for its member bodies with respect to the Code.

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

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PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

General

- 100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.
- 100.2 A1 The requirements in the Code, designated with the letter “R,” impose obligations.
- 100.2 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.
- R100.3** A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.
- 100.3 A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.
- 100.3 A2 A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

Breaches of the Code

R100.4 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.4 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for professional accountants:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; 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.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

R110.2 A professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

Others within the firm or employing organization.

Those charged with governance.

A professional body.

A regulatory body.

Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

- 110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

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

111.1 A1 Integrity implies fair dealing and truthfulness.

R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

R111.3 When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

R112.1 A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of 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.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

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

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

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

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

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

SUBSECTION 114 – CONFIDENTIALITY

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm or employing organization;
- (c) Maintain confidentiality of information disclosed by a prospective client or employing organization;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization 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 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 that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1

Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) 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;

- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; 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 or regulatory body;
 - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization 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.

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.

R114.2 A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A professional accountant shall comply with the principle of professional behavior, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should

know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

R115.2 When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

- 120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – *Professional Accountants in Business*;
 - (b) Part 3 – *Professional Accountants in Public Practice*; and
 - (c) *International Independence Standards*, as follows:
 - (i) Part 4A – *Independence for Audit and Review Engagements*; and
 - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

R120.4 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

R120.5 When applying the conceptual framework, the professional accountant shall:

- (a) Exercise professional judgment;
- (b) Remain alert for new information and to changes in facts and circumstances; and
- (c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

Exercise of Professional Judgment

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment.

120.5 A3 In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.

- The information provides a reasonable basis on which to reach a conclusion.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.
- There might be other reasonable conclusions that could be reached from the available information.

Reasonable and Informed Third Party

120.5 A4 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Identifying Threats

R120.6 The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

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

- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client’s or employing organization’s position to the point that the accountant’s objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R120.7 When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the accountant’s conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some

situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgments Made and Overall Conclusions Reached

R120.11 The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.12 A1 Professional accountants in public practice are required by *International Independence Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an audit or assurance team member’s integrity, objectivity or professional skepticism has been compromised.

120.12 A2 *International Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such

engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

Professional Skepticism

120.13 A1 Under auditing, review and other assurance standards, including those issued by the IAASB, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.13 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
 - (a) Being straightforward and honest when raising concerns about a position taken by a client; and
 - (b) Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the professional accountant not to compromise professional or business judgment because of bias, conflict of interest or the undue influence of others. For example, the accountant complies with the principle of objectivity by:
 - (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and

- (b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:
 - (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
 - (b) Designing and performing appropriate audit procedures; and
 - (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

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PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

Introduction

- 200.1 This Part of the Code sets out requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 A professional accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.
- 200.4 In this Part, the term “professional accountant” refers to:
- (a) A professional accountant in business; and
 - (b) An individual who is a professional accountant in public practice when performing professional activities pursuant to the accountant’s relationship with the accountant’s firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to professional accountants in public practice is set out in paragraphs R120.4, R300.5 and 300.5 A1.

Requirements and Application Material

General

- R200.5** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.
- 200.5 A1 A professional accountant has a responsibility to further the legitimate objectives of the accountant's employing organization. The Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.
- 200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.
- 200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:
- Ethics education and training programs.
 - Ethics and whistle-blowing policies.
 - Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

- 200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:
- (a) Self-interest Threats
- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.

- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
 - A professional accountant having access to corporate assets for personal use.
 - A professional accountant being offered a gift or special treatment from a supplier of the employing organization.
- (b) Self-review Threats
- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) Advocacy Threats
- A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.
- (d) Familiarity Threats
- A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
 - A professional accountant having a long association with individuals influencing business decisions.
- (e) Intimidation Threats
- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - The application of an accounting principle.
 - The way in which financial information is to be reported.
 - An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

Evaluating Threats

- 200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.
- 200.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.
- 200.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
 - Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
 - Policies and procedures to implement and monitor the quality of employee performance.
 - Systems of corporate oversight or other oversight structures and strong internal controls.
 - Recruitment procedures emphasizing the importance of employing high caliber competent personnel.
 - Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
 - Ethics and code of conduct policies.
- 200.7 A4 Professional accountants might consider obtaining legal advice where they believe that unethical behavior or actions by others have occurred, or will continue to occur, within the employing organization.

Addressing Threats

- 200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.
- 200.8 A2 In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for a professional accountant to resign from the employing organization.

Communicating with Those Charged with Governance

- R200.9** When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.
- 200.9 A1 In determining with whom to communicate, a professional accountant might consider:
- (a) The nature and importance of the circumstances; and
 - (b) The matter to be communicated.
- 200.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.
- R200.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.
- 200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

SECTION 210

CONFLICTS OF INTEREST

Introduction

210.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

210.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

- (a) A professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
- (b) The interest of a professional accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.

A party might include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

Requirements and Application Material

General

R210.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.

- Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

Conflict Identification

R210.5 A professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

R210.6 A professional accountant shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Threats Created by Conflicts of Interest

210.7 A1 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

Disclosure and Consent

General

210.8 A1 It is generally necessary to:

- (a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the

appropriate levels within the employing organization affected by a conflict; and

- (b) Obtain consent from the relevant parties for the professional accountant to undertake the professional activity when safeguards are applied to address the threat.

210.8 A2 Consent might be implied by a party's conduct in circumstances where the professional accountant has sufficient evidence to conclude that the parties 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.

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

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

Other Considerations

210.9 A1 When addressing a conflict of interest, the professional accountant is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another accountant. When making such disclosures or sharing information within the employing organization and seeking guidance of third parties, the principle of confidentiality applies.

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

- 220.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.
- 220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:
- Management and those charged with governance.
 - Investors and lenders or other creditors.
 - Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Risk analyses.
- General and special purpose financial statements.

- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

R220.4 When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature of business transactions or activities; and
 - (iii) Classify and record information in a timely and proper manner; and
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.

- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:

- (a) The purpose for which the information is to be used;
- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

220.6 A2 The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

Relying on the Work of Others

R220.7 A professional accountant who intends to rely on the work of others, either internal or external to the employing organization, shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

Addressing Information that Is or Might be Misleading

R220.8 When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

220.8 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.8 A2 The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
 - A relevant professional body.
 - The internal or external auditor of the employing organization.
 - Legal counsel.
- Determining whether any requirements exist to communicate to:
 - Third parties, including users of the information.
 - Regulatory and oversight authorities.

R220.9 If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

220.9 A1 In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

Documentation

220.10 A1 The professional accountant is encouraged to document:

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the accountant attempted to address the matter(s).

Other Considerations

220.11 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.11 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.11 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

Introduction

- 230.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R230.3** A professional accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.
- 230.3 A1 The principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.
- 230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if a professional accountant has:
- Insufficient time for performing or completing the relevant duties.
 - Incomplete, restricted or otherwise inadequate information for performing the duties.
 - Insufficient experience, training and/or education.
 - Inadequate resources for the performance of the duties.
- 230.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- The extent to which the professional accountant is working with others.
 - The relative seniority of the accountant in the business.
 - The level of supervision and review applied to the work.
- 230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Obtaining assistance or training from someone with the necessary expertise.
 - Ensuring that there is adequate time available for performing the relevant duties.

R230.4 If a threat to compliance with the principle of professional competence and due care cannot be addressed, a professional accountant shall determine whether to decline to perform the duties in question. If the accountant determines that declining is appropriate, the accountant shall communicate the reasons.

Other Considerations

230.5 A1 The requirements and application material in Section 270 apply when a professional accountant is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING

Introduction

- 240.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R240.3** A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.
- 240.3 A1 Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.
- 240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:
- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
 - Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.
 - Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the accountant.
 - Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
 - Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such

an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
 - All relevant interests.
 - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

SECTION 250

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

- 250.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 250.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

- 250.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
 - Hospitality.
 - Entertainment.
 - Political or charitable donations.
 - Appeals to friendship and loyalty.
 - Employment or other commercial opportunities.
 - Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

- R250.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The professional accountant shall

obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

250.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behavior

R250.7 A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

R250.8 A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

250.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals.

250.9 A2 A breach of the fundamental principle of integrity arises when a professional accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.

250.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.

- Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organization, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the inducement.
- Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behavior or reputation of the offeror.

Consideration of Further Actions

250.10 A1 If the professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R250.7 and R250.8 are met.

250.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management or those charged with governance of the employing organization of the professional accountant or the offeror regarding the offer.
- Amending or terminating the business relationship with the offeror.

Inducements with No Intent to Improperly Influence Behavior

250.11 A1 The requirements and application material set out in the conceptual framework apply when a professional accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

250.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

250.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the professional accountant has

concluded there is no actual or perceived intent to improperly influence behavior include:

- Self-interest threats
 - A professional accountant is offered part-time employment by a vendor.
- Familiarity threats
 - A professional accountant regularly takes a customer or supplier to sporting events.
- Intimidation threats
 - A professional accountant accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

250.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 250.9 A3 for determining intent.

250.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for any business-related decision involving the counterparty to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

250.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management or those charged with governance of the employing organization of the professional accountant or of the counterparty about offering or accepting an inducement.
- Registering the inducement in a log maintained by the employing organization of the accountant or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the accountant with respect to the individual or organization from which the accountant accepted the inducement.

- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R250.12 A professional accountant shall remain alert to potential threats to the accountant’s compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship; or
- (b) To an immediate or close family member of the accountant by a counterparty with whom the accountant has a professional relationship.

R250.13 Where the professional accountant becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the accountant or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The accountant and the immediate or close family member;
- (b) The immediate or close family member and the counterparty; and
- (c) The accountant and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the accountant by a counterparty with whom the accountant is negotiating a significant contract might indicate such intent.

250.13 A2 The application material in paragraph 250.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the professional accountant

or of the counterparty even if the immediate or close family member has followed the advice given pursuant to paragraph R250.13.

Application of the Conceptual Framework

- 250.14 A1 Where the professional accountant becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12, threats to compliance with the fundamental principles might be created where:
- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to paragraph R250.13; or
 - (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the counterparty exists.
- 250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 250.13 A1.

Other Considerations

- 250.15 A1 If a professional accountant is offered an inducement by the employing organization relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 apply.
- 250.15 A2 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organization, the requirements and application material set out in Section 260 apply.
- 250.15 A3 If a professional accountant faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 apply.

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 260.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:

- (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
- (ii) Deter the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

260.5 A1 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The professional accountant’s employing organization;
- (b) Those charged with governance of the employing organization;
- (c) Management of the employing organization; or
- (d) Other individuals working for or under the direction of the employing organization.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial

terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R260.6

In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

260.6 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.

260.7 A1 This section applies regardless of the nature of the employing organization, including whether or not it is a public interest entity.

260.7 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organization, its stakeholders and the general public.

260.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the employing organization; and
- (b) Non-compliance by parties other than those specified in paragraph 260.5 A1.

The professional accountant might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Employing Organization’s Management and Those Charged with Governance

260.8 A1 The employing organization’s management, with the oversight of those charged with governance, is responsible for ensuring that the employing organization’s business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The employing organization;

- (b) An individual charged with governance of the employing organization;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the employing organization.

Responsibilities of All Professional Accountants

R260.9 If protocols and procedures exist within the professional accountant's employing organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such non-compliance.

260.9 A1 Many employing organizations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

R260.10 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees or the general public.

Responsibilities of Senior Professional Accountants in Business

260.11 A1 Senior professional accountants in business ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organization. This is because of senior professional accountants' roles, positions and spheres of influence within the employing organization.

Obtaining an Understanding of the Matter

R260.12 If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include:

- (a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;
- (b) The application of the relevant laws and regulations to the circumstances; and
- (c) An assessment of the potential consequences to the employing organization, investors, creditors, employees or the wider public.

260.12 A1 A senior professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.12 A2 Depending on the nature and significance of the matter, the senior professional accountant might cause, or take appropriate steps to cause, the matter to be investigated internally. The accountant might also consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

Addressing the Matter

R260.13 If the senior professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R260.9, discuss the matter with the accountant's immediate superior, if any. If the accountant's immediate superior appears to be involved in the matter, the accountant shall discuss the matter with the next higher level of authority within the employing organization.

260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.

R260.14 The senior professional accountant shall also take appropriate steps to:

- (a) Have the matter communicated to those charged with governance;
- (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
- (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
- (d) Reduce the risk of re-occurrence; and
- (e) Seek to deter the commission of the non-compliance if it has not yet occurred.

- 260.14 A1 The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.
- 260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.
- R260.15** In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed.
- 260.15 A1 Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

Determining Whether Further Action Is Needed

- R260.16** The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.
- 260.16 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior professional accountant's superiors, if any, and those charged with governance include whether:
- The response is timely.
 - They have taken or authorized appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
 - The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.
- R260.17** In light of the response of the senior professional accountant's superiors, if any, and those charged with governance, the accountant shall determine if further action is needed in the public interest.
- 260.17 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:
- The legal and regulatory framework.
 - The urgency of the situation.
 - The pervasiveness of the matter throughout the employing organization.
 - Whether the senior professional accountant continues to have confidence in the integrity of the accountant's superiors and those charged with governance.

- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.

260.17 A2 Examples of circumstances that might cause the senior professional accountant no longer to have confidence in the integrity of the accountant's superiors and those charged with governance include situations where:

- The accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

R260.18 The senior professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

260.18 A1 Further action that the senior professional accountant might take includes:

- Informing the management of the parent entity of the matter if the employing organization is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Resigning from the employing organization.

260.18 A2 Resigning from the employing organization is not a substitute for taking other actions that might be needed to achieve the senior professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, resignation might be the only available course of action.

Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgments, the senior professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.

- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

260.20 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

260.20 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The employing organization is regulated and the matter is of such significance as to threaten its license to operate.
- The employing organization is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organization's securities or pose a systemic risk to the financial markets.
- It is likely that the employing organization would sell products that are harmful to public health or safety.
- The employing organization is promoting a scheme to its clients to assist them in evading taxes.

260.20 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.

- Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.

R260.21 If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

Imminent Breach

R260.22 In exceptional circumstances, the senior professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organization, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Documentation

260.23 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to have the following matters documented:

The matter.

- The results of discussions with the accountant's superiors, if any, and those charged with governance and other parties.
- How the accountant's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R260.17.

Responsibilities of Professional Accountants Other than Senior Professional Accountants

R260.24 If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of

the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

260.24 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.24 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

R260.25 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the accountant's immediate superior appears to be involved in the matter, the accountant shall inform the next higher level of authority within the employing organization.

R260.26 In exceptional circumstances, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the accountant does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

Documentation

260.27 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the accountant's superior, management and, where applicable, those charged with governance and other parties.
- How the accountant's superior has responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

270.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

270.2 Pressure exerted on, or by, a professional accountant might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R270.3 A professional accountant shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- (b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
 - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
 - Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.
 - Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
 - Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
 - Pressure from superiors to inappropriately reduce the extent of work performed.
 - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
 - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to inducements:
 - Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
 - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
 - Pressure to structure a transaction to evade tax.
 - See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the professional accountant to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
 - Higher levels of management.
 - Internal or external auditors.
 - Those charged with governance.
- Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.

- Consulting with:
 - A colleague, superior, human resources personnel, or another professional accountant;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the professional accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

Documentation

270.4 A1 The professional accountant is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Introduction

300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to professional accountants in public practice are set out in:

- Part 3 – *Professional Accountants in Public Practice*, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
- *International Independence Standards* as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit or review engagements.

300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

Requirements and Application Material

General

R300.4 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) **Self-interest Threats**

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.

- A professional accountant having a close business relationship with a client.
 - A professional accountant having access to confidential information that might be used for personal gain.
 - A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.
- (b) Self-review Threats
- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
 - A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- (c) Advocacy Threats
- A professional accountant promoting the interests of, or shares in, a client.
 - A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
 - A professional accountant lobbying in favor of legislation on behalf of a client.
- (d) Familiarity Threats
- A professional accountant having a close or immediate family member who is a director or officer of the client.
 - A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
 - An audit team member having a long association with the audit client.
- (e) Intimidation Threats
- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
 - A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.

- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

300.7 A1 The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- (a) The client and its operating environment; and
- (b) The firm and its operating environment.

300.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Client and its Operating Environment

300.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by whether the client is:

- (a) An audit client and whether the audit client is a public interest entity;
- (b) An assurance client that is not an audit client; or
- (c) A non-assurance client.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.

- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Firm and its Operating Environment

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A6 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the professional accountant's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the professional accountant re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.

- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards* describe certain threats that might arise during the course of performing professional services and include examples of actions that might address threats.

Appropriate Reviewer

300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided.-Such an individual might be a professional accountant.

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, a professional accountant might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

R300.10 If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

SECTION 310

CONFLICTS OF INTEREST

Introduction

- 310.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) A 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
 - (b) The interests of a professional accountant with respect to a particular matter and the interests of the client for whom the accountant provides a professional service related to that matter are in conflict.
- 310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a professional accountant provides an audit, review or other assurance service, independence is also required in accordance with *International Independence Standards*.

Requirements and Application Material

General

- R310.4** A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.
- 310.4 A1 Examples of 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.
 - Providing advice to two clients at the same time where the clients are competing to acquire the same company and 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.

Conflict Identification

General

R310.5

Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The service and its implication for relevant parties.

310.5 A1

An effective conflict identification process assists a professional accountant when taking reasonable steps 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. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the accountant being able to address threats created by the conflict of interest.

310.5 A2

An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

310.5 A3 More information on client acceptance is set out in Section 320, *Professional Appointments*.

Changes in Circumstances

R310.6 A professional accountant shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a professional accountant is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the accountant initially might not be involved in a dispute.

Network Firms

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

310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

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

Threats Created by Conflicts of Interest

310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that 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. These measures include:

- The existence of 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.

- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, 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.

Disclosure and Consent

General

R310.9 A professional accountant shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of 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). This enables the client to provide general consent accordingly. For example, an accountant might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an

informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances 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.

310.9 A3 It is generally necessary:

- (a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and
- (b) To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.

310.9 A4 If such disclosure or consent is not in writing, the professional accountant is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

When Explicit Consent is Refused

R310.10 If a professional accountant has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the accountant shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

General

R310.11 A professional accountant shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

310.11 A1 Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

R310.12 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (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; and
- (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.

310.12 A1 A breach of confidentiality might arise, for example, when seeking consent to perform:

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

Documentation

R310.13 In the circumstances set out in paragraph R310.12, the professional accountant shall document:

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

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

- 320.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 320.2 Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

- 320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- 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.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Changes in a Professional Appointment

General

R320.4 A professional accountant shall determine whether there are any reasons for not accepting an engagement when the accountant:

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

320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a professional accountant accepts the engagement before knowing all the relevant facts.

320.4 A2 If a professional accountant is asked to undertake work that is complementary or additional to the work of an existing or predecessor accountant, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the

existing or predecessor accountant will be requested. This contact gives the proposed accountant the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor accountant to provide any known information of which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

Communicating with the Existing or Predecessor Accountant

320.5 A1 A proposed accountant will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor accountant.

R320.6 If unable to communicate with the existing or predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Accountant

R320.7 When an existing or predecessor accountant is asked to respond to a communication from a proposed accountant, the existing or predecessor accountant shall:

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

320.7 A1 An existing or predecessor accountant is bound by confidentiality. Whether the existing or predecessor accountant is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor accountant has permission from the client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

320.7 A2 Circumstances where a professional accountant is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A1 of the Code.

Changes in Audit or Review Appointments

R320.8 In the case of an audit or review of financial statements, a professional accountant shall request the existing or predecessor accountant to provide known information regarding any facts or other information of which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

- (a) If the client consents to the existing or predecessor accountant disclosing any such facts or other information, the existing or predecessor accountant shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the existing or predecessor accountant permission to discuss the client's affairs with the proposed accountant, the existing or predecessor accountant shall disclose this fact to the proposed accountant, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and Engagement Continuance

R320.9 For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management or balance sheet valuations.

Using the Work of an Expert

R320.10 When a professional accountant intends to use the work of an expert, the accountant shall determine whether the use is warranted.

320.10 A1 Factors to consider when a professional accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

SECTION 321

SECOND OPINIONS

Introduction

- 321.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 321.2 Providing a second opinion to an entity that is not an existing client might create a self-interest or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 321.3 A1 A professional accountant might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence.
- 321.3 A2 A factor that is relevant in evaluating the level of such a self-interest threat is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 321.3 A3 Examples of actions that might be safeguards to address such a self-interest threat include:
- With the client's permission, obtaining information from the existing or predecessor accountant.
 - Describing the limitations surrounding any opinion in communications with the client.
 - Providing the existing or predecessor accountant with a copy of the opinion.

When Permission to Communicate is Not Provided

- R321.4** If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing or predecessor accountant, the accountant shall determine whether the accountant may provide the second opinion sought.

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

- 330.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

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.
- 330.3 A2 A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of 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.
- 330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the client is 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.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work performed.

Contingent Fees

- 330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

- 330.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis for determining the fee.
 - Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
 - Quality control policies and procedures.
 - Whether an independent third party is to review the outcome or result of the transaction.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:
- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant.
 - Obtaining an advance written agreement with the client on the basis of remuneration.
- 330.4 A4 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in *International Independence Standards*.

Referral Fees or Commissions

- 330.5 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee or receives a commission relating to a client. Such referral fees or commissions include, for example:
- A fee paid to another professional accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.
 - A fee received for referring a continuing client to another professional accountant or other expert where the existing accountant does not provide the specific professional service required by the client.
 - A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining an advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
- Disclosing to clients any referral fees or commission arrangements paid to, or received from, another professional accountant or third party for recommending services or products might address a self-interest threat.

Purchase or Sale of a Firm

330.6 A1 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 purposes of this section.

SECTION 340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

- 340.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

- 340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between professional accountants and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
 - Hospitality.
 - Entertainment.
 - Political or charitable donations.
 - Appeals to friendship and loyalty.
 - Employment or other commercial opportunities.
 - Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

- R340.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of

inducements in certain circumstances. The professional accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behavior

R340.7 A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

R340.8 A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

340.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals.

340.9 A2 A breach of the fundamental principle of integrity arises when a professional accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.

340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.

- Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
- Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behavior or reputation of the offeror.

Consideration of Further Actions

- 340.10 A1 If the professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.
- 340.10 A2 Examples of actions that might be safeguards to address such threats include:
- Informing senior management of the firm or those charged with governance of the client regarding the offer.
 - Amending or terminating the business relationship with the client.

Inducements with No Intent to Improperly Influence Behavior

- 340.11 A1 The requirements and application material set out in the conceptual framework apply when a professional accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.
- 340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.
- 340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the professional accountant has concluded there is no actual or perceived intent to improperly influence behavior include:
- Self-interest threats

- A professional accountant is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
 - A professional accountant regularly takes an existing or prospective client to sporting events.
- Intimidation threats
 - A professional accountant accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 340.9 A3 for determining intent.

340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the client to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the professional accountant with respect to the client from which the accountant accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R340.12 A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the accountant to an existing or prospective client of the accountant.
- (b) To an immediate or close family member of the accountant by an existing or prospective client of the accountant.

R340.13 Where the professional accountant becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the accountant or of an existing or prospective client of the accountant, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

340.13 A1 The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The accountant and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The accountant and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the accountant by a client for whom the accountant is providing a business valuation for a prospective sale might indicate such intent.

340.13 A2 The application material in paragraph 340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the professional accountant, or of the existing or prospective client even if the immediate or close family member has followed the advice given pursuant to paragraph R340.13.

Application of the Conceptual Framework

340.14 A1 Where the professional accountant becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to paragraph R340.13; or
- (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the existing or prospective client exists.

340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

Other Considerations

340.15 A1 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.

340.15 A2 If a firm, network firm or an audit team member is being offered gifts or hospitality from an audit client, the requirement and application material set out in Section 420 apply.

340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

SECTION 350

CUSTODY OF CLIENT ASSETS

Introduction

- 350.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behavior and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Before Taking Custody

R350.3 A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

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

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

350.4 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 circumstances, a threat would be created and the provisions of Section 360 would apply.

After Taking Custody

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

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

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 360.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 360.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance;or

- (ii) Deter the commission of the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

360.5 A1 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) A client;
- (b) Those charged with governance of a client;
- (c) Management of a client; or
- (d) Other individuals working for or under the direction of a client.

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R360.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected

non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

360.7 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

360.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where a professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.

The accountant might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of Management and Those Charged with Governance

360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The client;
- (b) An individual charged with governance of the entity;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the client.

Responsibilities of All Professional Accountants

R360.9 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Audits of Financial Statements

Obtaining an Understanding of the Matter

R360.10 If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

360.10 A1 The professional accountant might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.

360.10 A2 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.10 A3 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R360.11 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

360.11 A1 The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.

- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

360.11 A4 The professional accountant might also consider discussing the matter with internal auditors, where applicable.

R360.12 If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the accountant shall discuss the matter with those charged with governance.

Addressing the Matter

R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

R360.14 The professional accountant shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice.

R360.15 The professional accountant shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under auditing standards, including those relating to:
 - Identifying and responding to non-compliance, including fraud.
 - Communicating with those charged with governance.
 - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

R360.16 Where a professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The accountant is, for purposes of an audit of the group financial statements, requested by the group engagement team to perform work on financial information related to the component; or
- (b) The accountant is engaged to perform an audit of the component's financial statements for purposes other than the group audit, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the professional accountant's firm or network.

R360.17 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor.

360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing work at the components.

Determining Whether Further Action Is Needed

R360.19 The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.

- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R360.20 In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.

360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the client.
- Whether the professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

360.20 A2 Examples of circumstances that might cause the professional accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

R360.21 The professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

360.21 A1 Further action that the professional accountant might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the professional accountant’s objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, withdrawal might be the only available course of action.

R360.22 Where the professional accountant has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the accountant shall, on request by the proposed accountant pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed accountant. The predecessor accountant shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the predecessor accountant permission to discuss the client’s affairs with the proposed accountant, unless prohibited by law or regulation.

360.22 A1 The facts and other information to be provided are those that, in the predecessor accountant’s opinion, the proposed accountant needs to be aware of before deciding whether to accept the audit appointment. Section 320 addresses communications from proposed accountants.

R360.23 If the proposed accountant is unable to communicate with the predecessor accountant, the proposed accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

360.24 A1 As assessment of the matter might involve complex analysis and judgments, the professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the accountant’s options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.
- The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- It is likely that the entity would sell products that are harmful to public health or safety.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals.

R360.26 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

Imminent Breach

R360.27 In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Documentation

R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing standards. ISAs, for example, require a professional accountant performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional Services Other than Audits of Financial Statements

Obtaining an Understanding of the Matter and Addressing It with Management and Those

Charged with Governance

R360.29 If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

360.29 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.29 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R360.30 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management. If the accountant has access to those charged with governance, the accountant shall also discuss the matter with them where appropriate.

360.30 A1 The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor

R360.31 If the professional accountant is performing a non-audit service for:

- (a) An audit client of the firm; or

(b) A component of an audit client of the firm, the accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.32

If the professional accountant is performing a non-audit service for:

(a) An audit client of a network firm; or

(b) A component of an audit client of a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.33

If the professional accountant is performing a non-audit service for a client that is not:

(a) An audit client of the firm or a network firm; or

(b) A component of an audit client of the firm or a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

Relevant Factors to Consider

360.34 A1

Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.
- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

Purpose of Communication

360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.

Considering Whether Further Action Is Needed

R360.36 The professional accountant shall also consider whether further action is needed in the public interest.

360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

360.36 A2 Further action by the professional accountant might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

R360.37 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when

making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

Imminent Breach

R360.38 In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Seeking Advice

360.39 A1 The professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.36.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

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INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

PART 4A –INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

- 400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.
- 400.2 This Part applies to both audit and review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.
- 400.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.
- 400.4 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel), maintain independence where required by relevant ethics requirements. ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.
- 400.5 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that

compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit team member’s, integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

400.7 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

Reports that Include a Restriction on Use and Distribution

400.9 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements other than Audit and Review Engagements

400.10 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

Requirements and Application Material

General

R400.11 A firm performing an audit engagement shall be independent.

R400.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

[Paragraphs 400.13 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include 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, evaluating and addressing threats to independence.

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

R400.30 Independence, as required by this Part, shall be maintained during both:

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

400.30 A1 The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

R400.31 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 created by:

- (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 a network firm.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the audit team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer review the audit and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

[Paragraphs 400.32 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and

- (c) Take appropriate action.

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

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R400.51 A network firm shall be independent of the audit clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R400.52 When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality control policies and procedures. (Ref: Para. 400.53 A4);

- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, 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.

400.53 A2 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 jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality control policies and procedures are those designed, implemented and monitored across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 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. (Ref: Para. R400.53(d)).

400.53 A6 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. (Ref: Para. R400.53(e)).

400.53 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 the firm 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. (Ref: Para. R400.53(e)).

400.53 A8 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. (Ref: Para. R400.53(f)).

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

- The shared resources might be limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

R400.54 If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm’s or network’s name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can 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. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

R400.60 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

400.70 A1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R400.71 In the circumstances set out in paragraph 400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

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

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat 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.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- 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).
- The length of time until the interest or relationship can reasonably be ended.

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

- (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 Section 600 and its subsections, 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.

400.73 A1 Examples of such transitional measures include:

- 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.
- 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.

R400.74 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 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(b) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

If Objectivity Remains Compromised

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

Documentation

R400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a)** End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b)** Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i)** Comply with those requirements; and
 - (ii)** Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c)** Promptly communicate the breach in accordance with its policies and procedures to:
 - (i)** The engagement partner;
 - (ii)** Those with responsibility for the policies and procedures relating to independence;
 - (iii)** Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv)** Those subject to the independence requirements in Part 4A 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; and
- (e)** Depending on the significance of the breach, determine:
 - (i)** Whether to end the audit engagement; or
 - (ii)** Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

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

400.80 A1

A breach of a provision of this Part might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit engagement.
- Whether an audit team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements.
- If the breach relates to an audit team member, the role of that individual.
- If the breach was created by providing 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.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- 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.
- 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.

R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (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.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R400.82 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; and
- (b) A description of:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.

Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A 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.

R400.87 The firm shall also:

- (a) 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
- (b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

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

R400.89 If the firm continues with the audit engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

SECTION 410

FEES

Introduction

- 410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 410.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Fees – Relative Size

All Audit Clients

- 410.3 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 410.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
 - Whether the firm is well established or new.
 - The significance of the client qualitatively and/or quantitatively to the firm.
- 410.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.
- 410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.
- 410.3 A5 Factors that are relevant in evaluating the level of such threats include:
- The significance of the client qualitatively and/or quantitatively to the partner or office.
 - The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.
- 410.3 A6 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Increasing the client base of the partner or the office to reduce dependence on the audit client.
- Having an appropriate reviewer who did not take part in the audit engagement review the work.

Audit Clients that are Public Interest Entities

R410.4 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

- (a) Disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and
- (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:
 - (i) Prior to the audit opinion being issued on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
 - (ii) After the audit opinion on the second year's financial statements has been issued, and before the audit opinion being issued on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body performs a review of the second year's audit that is equivalent to an engagement quality control review ("a post-issuance review").

R410.5 When the total fees described in paragraph R410.4 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.

R410.6 If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:

- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and
- (b) Comply with paragraphs R410.4(b) and R410.5.

Fees – Overdue

410.7 A1 A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

410.7 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

R410.8 When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Contingent Fees

410.9 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R410.10 A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

R410.11 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

- (a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;

- (b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

410.12 A1 Paragraphs R410.10 and R410.11 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, a self-interest threat might still be created.

410.12 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.12 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm.
- Obtaining an advance written agreement with the client on the basis of remuneration.

SECTION 411

COMPENSATION AND EVALUATION POLICIES

Introduction

- 411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 411.3 A1 When an audit team member for a particular audit client is evaluated on or compensated for selling non-assurance services to that audit client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
 - (b) The role of the individual on the audit team; and
 - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
 - Removing that individual from the audit team.
- 411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.
- R411.4** A firm shall not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

SECTION 420

GIFTS AND HOSPITALITY

Introduction

- 420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 420.2 Accepting gifts and hospitality from an audit client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R420.3** A firm, network firm or an audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.
- 420.3 A1 Where a firm, network firm or audit team member is offering or accepting an inducement to or from an audit client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 420.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm, network firm or audit team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 430

ACTUAL OR THREATENED LITIGATION

Introduction

- 430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 430.2 When litigation with an audit client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

- 430.3 A1 The relationship between client management and audit team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an audit client and the firm, a network firm or an audit team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior audit engagement.
- 430.3 A3 If the litigation involves an audit team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the audit team.
- 430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 510

FINANCIAL INTERESTS

Introduction

- 510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 510.2 Holding a financial interest in an audit client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

- R510.4** Subject to paragraph R510.5, 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) An audit team member, 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; or
- (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 that individual's immediate family.

510.4 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 audit team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.5

As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling an Audit Client

R510.6

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

Financial Interests Held as Trustee

R510.7

Paragraph R510.4 shall also apply to a financial interest in an audit client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the audit team member or any of that individual's immediate family, 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, the audit team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Audit Client

- R510.8**
- (a) A firm, or a network firm, or an audit team member, or any 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:
 - (i) The financial interests are immaterial to the firm, the network firm, the audit team member and that individual's immediate family member and the audit client, as applicable; or
 - (ii) The audit client cannot exercise significant influence over the entity.
 - (b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit team member, the individual or that individual's immediate family member shall either:
 - (i) Dispose of the interest; or
 - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests Received Unintentionally

- R510.9**
- If a firm, a network firm or a partner or employee of the firm or a network firm, or any 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:
- (a) If the interest is received by the firm or a network firm, or an audit team member or any 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 an audit team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
- (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

- 510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit team member, or any of that individual's immediate family, 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.
- 510.10 A2 Factors that are relevant in evaluating the level of such threats include:
- 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.
 - The materiality of the financial interest.
- 510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit team member with the financial interest from the audit team.
- 510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

Close Family

- 510.10 A5 A self-interest threat might be created if an audit team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit client.
- 510.10 A6 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the audit team member and the close family member.
 - Whether the financial interest is direct or indirect.

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

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the audit team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

Other Individuals

510.10 A9 A self-interest threat might be created if an audit team member knows that a financial interest in the audit client is held by individuals such as:

- Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
- Individuals with a close personal relationship with an audit team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

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

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit team member with the personal relationship from the audit team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the audit team member from any significant decision-making concerning the audit engagement.
- Having an appropriate reviewer review the work of the audit team member.

Retirement Benefit Plan of a Firm or Network Firm

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.

SECTION 511

LOANS AND GUARANTEES

Introduction

- 511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 511.2 A loan or a guarantee of a loan with an audit client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Loans and Guarantees with an Audit Client

- R511.4** A firm, a network firm, an audit team member, or any 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:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

Loans and Guarantees with an Audit Client that is a Bank or Similar Institution

- R511.5** A firm, a network firm, an audit team member, or any 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.
- 511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 511.5 A2 Even if a firm or network firm receives a loan from an audit client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the audit client or firm receiving the loan.

511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an audit team member, from a network firm that is not a beneficiary of the loan.

Deposits or Brokerage Accounts

R511.6 A firm, a network firm, an audit team member, or any 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.

Loans and Guarantees with an Audit Client that is Not a Bank or Similar Institution

R511.7 A firm, a network firm, an audit team member, or any 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:

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

SECTION 520

BUSINESS RELATIONSHIPS

Introduction

- 520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 520.2 A close business relationship with an audit client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
 - Distribution or marketing arrangements under which the firm or a network firm distributes or markets the client’s products or services, or the client distributes or markets the firm or a network firm’s products or services.

Firm, Network Firm, Audit Team Member or Immediate Family Business Relationships

- R520.4** A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.

Common Interests in Closely-Held Entities

R520.5 A firm, a network firm, an audit team member, or any 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:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, 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.

Buying Goods or Services

520.6 A1 The purchase of goods and services from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create 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 create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

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

SECTION 521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an audit team member and a director or officer or, depending on their role, certain employees of the audit client.
- 521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the audit team.
 - The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of an Audit Team Member

- 521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.
- 521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the audit team member.
- 521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.
- 521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.

R521.5 An individual shall not participate as an audit team member when any of that individual's immediate family:

- (a) Is a director or officer of the audit client;
- (b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion; or
- (c) Was in such position during any period covered by the engagement or the financial statements.

Close Family of an Audit Team Member

521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an audit team member is:

- (a) A director or officer of the audit client; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the audit team member and the close family member.
- The position held by the close family member.
- The role of the audit team member.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Audit Team Member

R521.7 An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:

- (a) A director or officer of the audit client; or

- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the audit team member.
- The position the individual holds with the client.
- The role of the audit team member.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the individual with whom the audit team member has a close relationship.

Relationships of Partners and Employees of the Firm

R521.8 Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A partner or employee of the firm or network firm who is not an audit team member; and
- (b) A director or officer of the audit client or an employee of the audit client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the audit team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

521.8 A2

Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement.
- Having an appropriate reviewer review the relevant audit work performed.

SECTION 522

RECENT SERVICE WITH AN AUDIT CLIENT

Introduction

- 522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 522.2 If an audit team member has recently served as a director or officer, or employee of the audit client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Audit Report

- R522.3** The audit team shall not include an individual who, during the period covered by the audit report:
- (a) Had served as a director or officer of the audit client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Service Prior to Period Covered by the Audit Report

- 522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit report, an audit team member:
- (a) Had served as a director or officer of the audit client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement.

- 522.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position the individual held with the client.
 - The length of time since the individual left the client.
 - The role of the audit team member.

522.4 A3

An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the audit team member.

SECTION 523

SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT CLIENT

Introduction

523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

523.2 Serving as a director or officer of an audit client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

R523.3 A partner or employee of the firm or a network firm shall not serve as a director or officer of an audit client of the firm.

Service as Company Secretary

R523.4 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit client of the firm, unless:

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit client. (More information on providing non-assurance services to an audit client is set out in Section 600, *Provision of Non-assurance Services to an Audit Client*.)

SECTION 524

EMPLOYMENT WITH AN AUDIT CLIENT

Introduction

- 524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 524.2 Employment relationships with an audit client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit Clients

- 524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit team member or partner of the firm or a network firm:
- A director or officer of the audit client.
 - An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Former Partner or Audit Team Member Restrictions

R524.4 The firm shall ensure that no significant connection remains between the firm or a network firm and:

- (a) A former partner who has joined an audit client of the firm; or
 - (b) A former audit team member who has joined the audit client,
- if either has joined the audit client as:
- (i) A director or officer; or
 - (ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;

- (b) Any amount owed to the individual is not material to the firm or the network firm; and
- (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit client of the firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the audit team.
- The length of time since the individual was an audit team member or partner of the firm or network firm.
- The former position of the individual within the audit team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the audit plan.
- Assigning to the audit team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former audit team member.

Audit Team Members Entering Employment with a Client

R524.5 A firm or network firm shall have policies and procedures that require audit team members to notify the firm or network firm when entering employment negotiations with an audit client.

524.5 A1 A self-interest threat is created when an audit team member participates in the audit engagement while knowing that the audit team member will, or might, join the client at some time in the future.

524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit team.

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

Audit Clients that are Public Interest Entities

Key Audit Partners

R524.6 Subject to paragraph R524.8, if an individual who was a key audit partner with respect to an audit client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

independence is compromised unless, subsequent to the individual ceasing to be a key audit partner:

- (i) The audit client has issued audited financial statements covering a period of not less than twelve months; and
- (ii) The individual was not an audit team member with respect to the audit of those financial statements.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

R524.7 Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Business Combinations

R524.8 As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a)** The position was not taken in contemplation of the business combination;
- (b)** Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm as applicable;
- (c)** The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d)** The firm discusses the former partner's position held with the audit client with those charged with governance.

SECTION 525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

- 525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 525.2 The loan of personnel to an audit client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
 - Not including the loaned personnel as an audit team member might address a familiarity or advocacy threat.
 - Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R525.4** A firm or network firm shall not loan personnel to an audit client unless:
- (a) Such assistance is provided only for a short period of time;
 - (b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and
 - (c) The personnel do not assume management responsibilities and the audit client is responsible for directing and supervising the activities of the personnel.

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

- 540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 540.2 When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit Clients

- 540.3 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with:
- (a) The audit client and its operations;
 - (b) The audit client's senior management; or
 - (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.
- 540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
 - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member, and the nature of the roles performed.

- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement over a long period of time would be rotating the individual off the audit team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Provide quality control for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

R540.7 As an exception to paragraph R540.5, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key

audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

R540.9 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R540.10 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.

540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

- R540.11** If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.
- R540.12** Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- R540.13** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a combination of key audit partner roles

- R540.14** If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.
- R540.15** Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall be three consecutive years.
- R540.16** If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall:
- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or
 - (b) Be three consecutive years in the case of any other combination.
- R540.17** If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

- R540.18** In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

Shorter Cooling-off Period Established by Law or Regulation

- R540.19** Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive

years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or provide quality control for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

540.20 A1 The provisions of paragraph R540.20 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

- 600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material relevant when a firm or network firm provides certain non-assurance services to audit clients and indicate the types of threats that might be created as a result. Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

General

- R600.4** Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall determine whether providing such a service might create a threat to independence.
- 600.4 A1 The requirements and application material in this section assist the firm in analyzing certain types of non-assurance services and the related threats that might be created if a firm or network firm provides non-assurance services to an audit client.
- 600.4 A2 New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit client.

Evaluating Threats

600.5 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit client include:

- The nature, scope and purpose of the service.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The legal and regulatory environment in which the service is provided.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent of the client's involvement in determining significant matters of judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.
- Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.

600.5 A2 Subsections 601 to 610 include examples of additional factors that are relevant in evaluating the level of threats created by providing the non-assurance services set out in those subsections.

Materiality in Relation to Financial Statements

600.5 A3 Subsections 601 to 610 refer to materiality in relation to an audit client's financial statements. The concept of materiality in relation to an audit is addressed in ISA 320, *Materiality in Planning and Performing an Audit*,

and in relation to a review in ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

Multiple Non-assurance Services Provided to the Same Audit Client

600.5 A4 A firm or network firm might provide multiple non-assurance services to an audit client. In these circumstances the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Addressing Threats

600.6 A1 Subsections 601 to 610 include examples of actions, including safeguards, that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level. Those examples are not exhaustive.

600.6 A2 Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.

600.6 A3 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to audit clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a non-assurance service to an audit client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit engagement.

Prohibition on Assuming Management Responsibilities

R600.7 A firm or a network firm shall not assume a management responsibility for an audit client.

600.7 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

600.7 A2 Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

600.7 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

600.7 A4 Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. R600.7 to 600.7 A3).

R600.8 To avoid assuming a management responsibility when providing any non-assurance service to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the services; and
 - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Providing Non-Assurance Services to an Audit Client that Later Becomes a Public Interest Entity

R600.9 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before, or as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm addresses threats that are created that are not at an acceptable level.

Considerations for Certain Related Entities

R600.10 This section includes requirements that prohibit firms and network firms from assuming management responsibilities or providing certain non-assurance services to audit clients. As an exception to those requirements, a firm or network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client, provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- (iii) The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 Providing accounting and bookkeeping services to an audit client might create a self-review threat.

601.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an audit client with accounting and bookkeeping services. This subsection includes requirements that prohibit firms and network firms from providing certain accounting and bookkeeping services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records and financial statements.
- Recording transactions.
- Payroll services.

601.3 A2 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment in accordance with those policies.

- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
 - Purchase orders.
 - Payroll time records.
 - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

601.3 A3

The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not usually create threats as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

601.3 A4

Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:

- Complying with group accounting policies.
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.

Accounting and Bookkeeping Services that are Routine or Mechanical

601.4 A1

Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment. Some examples of these services are:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

Audit Clients that are Not Public Interest Entities

R601.5 A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.

601.5 A1 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit client include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R601.6 Subject to paragraph R601.7, a firm or a network firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements.

R601.7 As an exception to paragraph R601.6, a firm or network firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:

- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or
- (b) The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 Providing administrative services to an audit client does not usually create a threat.

602.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing administrative services.

Application Material

All Audit Clients

602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

602.3 A2 Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit client of those dates.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 Providing valuation services to an audit client might create a self-review or advocacy threat.

603.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1

to R600.10 are relevant to applying the conceptual framework when providing valuation services to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain valuation services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

- 603.3 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
- 603.3 A2 If a firm or network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.9 A1 to 604.9 A5, relating to such services, applies.
- 603.3 A3 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit client include:
- The use and purpose of the valuation report.
 - Whether the valuation report will be made public.
 - The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
 - The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
 - Whether the valuation will have a material effect on the financial statements.
 - The extent and clarity of the disclosures related to the valuation in the financial statements.
 - The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.
- 603.3 A4 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Not Public Interest Entities

R603.4 A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:

- (a) The valuation involves a significant degree of subjectivity; and
- (b) The valuation will have a material effect on the financial statements on which the firm will express an opinion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Audit Clients that are Public Interest Entities

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the valuation service would have a material effect, individually or in the aggregate, on the financial statements on which the firm will express an opinion.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 Providing tax services to an audit client might create a self-review or advocacy threat.

604.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a tax service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain tax services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

604.3 A1 Tax services comprise a broad range of services, including activities such as:

- Tax return preparation.
- Tax calculations for the purpose of preparing the accounting entries.

- Tax planning and other tax advisory services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.

604.3 A2 Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit client include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

Tax Return Preparation

All Audit Clients

604.4 A1 Providing tax return preparation services does not usually create a threat.

604.4 A2 Tax return preparation services involve:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

604.4 A3 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate.

Tax Calculations for the Purpose of Preparing Accounting Entries

All Audit Clients

604.5 A1 Preparing calculations of current and deferred tax liabilities (or assets) for

an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.

604.5 A2 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing such calculations for an audit client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

604.5 A3 Examples of actions that might be safeguards to address such a self-review threat when the audit client is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R604.6 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

604.6 A1 The examples of actions that might be safeguards in paragraph 604.5 A3 to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion.

Tax Planning and Other Tax Advisory Services

All Audit Clients

604.7 A1 Providing tax planning and other tax advisory services might create a self-review or advocacy threat.

604.7 A2 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

604.7 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax planning and other tax advisory services to audit clients include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.

- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, whether the advice provided as a result of the tax planning and other tax advisory services:

- Is clearly supported by a tax authority or other precedent.
- Is an established practice.
- Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice will have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

604.7 A4

Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.8

A firm or a network firm shall not provide tax planning and other tax advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.

Tax Services Involving Valuations

All Audit Clients

- 604.9 A1 Providing tax valuation services to an audit client might create a self-review or advocacy threat.
- 604.9 A2 A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.
- 604.9 A3 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in evaluating the level of self-review or advocacy threats created by providing those services to an audit client:
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
 - The degree of subjectivity inherent in the valuation.
 - The reliability and extent of the underlying data.
- 604.9 A4 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.
 - Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.
- 604.9 A5 A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.

Assistance in the Resolution of Tax Disputes

All Audit Clients

- 604.10 A1 Providing assistance in the resolution of tax disputes to an audit client might create a self-review or advocacy threat.

604.10 A2 A tax dispute might reach a point when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court.

604.10 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.
- Whether the advice that was provided is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

604.10 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Resolution of Tax Matters Involving Acting as An Advocate

R604.11 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client if:

- (a) The services involve acting as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion.

604.11 A1 Paragraph R604.11 does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.11 A2 What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 Providing internal audit services to an audit client might create a self-review threat.

605.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an internal audit service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain internal audit services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

605.3 A1 Internal audit services involve assisting the audit client in the performance of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

605.3 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance.

R605.4 When providing an internal audit service to an audit client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control.
- (b) The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.4 A1 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.

605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

605.4 A3 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A4 Factors that are relevant in evaluating the level of such a self-review threat include:

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit team will place on the work of the internal audit service, including in the course of an external audit.

605.4 A5 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R605.5 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity, if the services relate to:

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, individually or in the aggregate, material to the client’s accounting records or financial statements on which the firm will express an opinion; or

- (c) Amounts or disclosures that are, individually or in the aggregate, material to the financial statements on which the firm will express an opinion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

- 606.1 Providing information technology (IT) systems services to an audit client might create a self-review threat.
- 606.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing an IT systems service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

- 606.3 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:
 - (a) Aggregate source data;
 - (b) Form part of the internal control over financial reporting; or
 - (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

- 606.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following IT systems services to an audit client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:
 - (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
 - (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;

- (c) Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client’s needs is not significant; and
- (d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

R606.4 When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

606.4 A1 Factors that are relevant in evaluating the level of a self-review threat created by providing IT systems services to an audit client include:

- The nature of the service.
- The nature of IT systems and the extent to which they impact or interact with the client’s accounting records or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

606.4 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R606.5 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve designing or implementing IT systems that:

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

- 607.1 Providing certain litigation support services to an audit client might create a self-review or advocacy threat.
- 607.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Application Material

All Audit Clients

- 607.3 A1 Litigation support services might include activities such as:
- Assisting with document management and retrieval.
 - Acting as a witness, including an expert witness.
 - Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- 607.3 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:
- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
 - The nature and characteristics of the service.
 - The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion.
- 607.3 A3 An example of an action that might be a safeguard to address such a self-review or advocacy threat is using a professional who was not an audit team member to perform the service.
- 607.3 A4 If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion,

the requirements and application material set out in Subsection 603 related to valuation services apply.

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 Providing legal services to an audit client might create a self-review or advocacy threat.

608.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a legal service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain legal services to audit clients in some circumstances because the threats cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

608.3 A1 Legal services are defined as any services for which the individual providing the services must either:

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

Acting in an Advisory Role

608.4 A1 Depending on the jurisdiction, legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

608.4 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing legal advisory services to an audit client include:

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

- 608.4 A3 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit team members to perform the service might address a self-review or advocacy threat.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Acting as General Counsel

R608.5 A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client.

608.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

Acting in an Advocacy Role

R608.6 A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

- 608.6 A1 Examples of actions that might be safeguards to address a self-review threat created when acting in an advocacy role for an audit client when the amounts involved are not material to the financial statements on which the firm will express an opinion include:
- Using professionals who are not audit team members to perform the service.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.

609.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a recruiting service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain types of recruiting services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

- 609.3 A1 Recruiting services might include activities such as:
- Developing a job description.
 - Developing a process for identifying and selecting potential candidates.
 - Searching for or seeking out candidates.
 - Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.
- 609.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does not assume a management responsibility:
- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
 - Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.
- R609.4** When a firm or network firm provides recruiting services to an audit client, the firm shall be satisfied that:
- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
 - (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

- 609.5 A1 Factors that are relevant in evaluating the level of self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client include:
- The nature of the requested assistance.
 - The role of the individual to be recruited.
 - Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.
- 609.5 A2 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

- R609.6** When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf.
- R609.7** A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:
- (a) Searching for or seeking out candidates; or
 - (b) Undertaking reference checks of prospective candidates,
- with respect to the following positions:
- (i) A director or officer of the entity; or
 - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

- 610.1 Providing corporate finance services to an audit client might create a self-review or advocacy threat.
- 610.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 are relevant to applying the conceptual framework when providing a corporate finance service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to audit clients because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

- 610.3 A1 Examples of corporate finance services that might create a self-review or advocacy threat include:
- Assisting an audit client in developing corporate strategies.
 - Identifying possible targets for the audit client to acquire.
 - Advising on disposal transactions.
 - Assisting in finance raising transactions.
 - Providing structuring advice.
 - Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.
- 610.3 A2 Factors that are relevant in evaluating the level of such threats created by providing corporate finance services to an audit client include:
- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
 - The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
 - The amounts are material to the financial statements.
 - Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.
- 610.3 A3 Examples of actions that might be safeguards to address threats include:
- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
 - Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Corporate Finance Services that are Prohibited

- R610.4** A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

R610.5

A firm or a network firm shall not provide corporate finance advice to an audit client where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion and:

- (a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.

SECTION 800

REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Introduction

800.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an “eligible audit engagement.”

Requirements and Application Material

General

R800.3 When a firm intends to issue a report on an audit of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
- (b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

R800.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the

firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

800.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R800.5 When the firm performs an eligible audit engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm shall not apply these modifications when an audit of financial statements is required by law or regulation.

R800.6 If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A to that audit engagement.

Public Interest Entities

R800.7 When the firm performs an eligible audit engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit engagements.

Related Entities

R800.8 When the firm performs an eligible audit engagement, references to "audit client" in Part 4A do not need to include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Networks and Network Firms

R800.9 When the firm performs an eligible audit engagement, the specific requirements regarding network firms set out in Part 4A do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

R800.10 When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

800.10 A1 Others within a firm who can directly influence the outcome of the audit engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

R800.11 When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

R800.12 When the firm performs an eligible audit engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Employment with an Audit Client

R800.13 When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

Providing Non-Assurance Services

R800.14 If the firm performs an eligible audit engagement and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

**PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS
OTHER THAN AUDIT AND -REVIEW ENGAGEMENTS**

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PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND -REVIEW ENGAGEMENTS

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

- 900.1 This Part applies to assurance engagements other than audit and review engagements (referred to as “assurance engagements” in this Part). Examples of such engagements include:
- An audit of specific elements, accounts or items of a financial statement.
 - Performance assurance on a company’s key performance indicators.
- 900.2 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.
- 900.3 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. ISAEs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with ISQC 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.
- 900.4 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.6 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

Description of Other Assurance Engagements

900.7 Assurance engagements are designed to enhance intended users’ degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. In an assurance engagement, the firm expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria. The Assurance Framework describes the elements and objectives of an assurance engagement and identifies engagements to which ISAEs apply. For a description of the elements and objectives of an assurance engagement, refer to the Assurance Framework.

900.8 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Assurance Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO or CoCo (criteria), to internal control, a process (subject matter).

- 900.9 Assurance engagements might be assertion-based or direct reporting. In either case, they involve three separate parties: a firm, a responsible party and intended users.
- 900.10 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party. The subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 900.11 In a direct reporting assurance engagement, the firm:
- (a) Directly performs the evaluation or measurement of the subject matter; or
 - (b) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

Reports that Include a Restriction on Use and Distribution

- 900.12 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

Audit and Review Engagements

- 900.13 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

Requirements and Application Material

General

- R900.14** A firm performing an assurance engagement shall be independent.
- R900.15** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Network firms

- R900.16** When a firm has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.16 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Related Entities

R900.17 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

Types of Assurance Engagements

Assertion-based Assurance Engagements

R900.18 When performing an assertion-based assurance engagement:

- (a) The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter information, and which might be responsible for the subject matter) as set out in this Part. The independence requirements set out in this Part prohibit certain relationships between assurance team members and (i) directors or officers, and (ii) individuals at the client in a position to exert significant influence over the subject matter information;
- (b) The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement; and
- (c) The firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

R900.19 When performing an assertion-based assurance engagement where the responsible party is responsible for the subject matter information but not the subject matter:

- (a) The assurance team members and the firm shall be independent of the party responsible for the subject matter information (the assurance client); and
- (b) The firm shall evaluate and address any threats the firm has reason to believe are created by interests and relationships between an assurance team member, the firm, a network firm and the party responsible for the subject matter.

900.19 A1 In the majority of assertion-based assurance engagements, the responsible

party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party might not be responsible for the subject matter. An example might be when a firm is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users. In this case, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

Direct Reporting Assurance Engagements

R900.20 When performing a direct reporting assurance engagement:

- (a) The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter); and
- (b) The firm shall evaluate and address any threats to independence the firm has reason to believe are created by network firm interests and relationships.

Multiple Responsible Parties

900.21 A1 In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this Part to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- (a) The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible.
- (b) The degree of public interest associated with the engagement.

If the firm determines that the threat created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that responsible party.

[Paragraphs 900.22 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and non-assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

[Paragraphs 900.34 to 900.39 are intentionally left blank]

General Documentation of Independence for Assurance Engagements Other than Audit and Review Engagements

R900.40 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

900.40 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 900.41 to 900.49 are intentionally left blank]

Breach of an Independence Provision for Assurance Engagements Other than Audit and Review Engagements

When a Firm Identifies a Breach

R900.50 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach;

- (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

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 would be unable to issue an assurance report.

R900.51 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

R900.52 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

R900.53 If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

Documentation

R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

R900.55 If the firm continues with the assurance engagement, it shall document:

- (a)** The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b)** The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

SECTION 905

FEES

Introduction

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Fees—Relative Size

- 905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 905.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
 - Whether the firm is well established or new.
 - The significance of the client qualitatively and/or quantitatively to the firm.
- 905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.
- 905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Increasing the client base of the partner to reduce dependence on the assurance client.
- Having an appropriate reviewer who was not an assurance team member review the work.

Fees—Overdue

905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

905.4 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.5 When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Contingent Fees

905.6 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.7 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.8 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.9 A1 Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

905.9 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.

- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9 A3

Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

SECTION 906

GIFTS AND HOSPITALITY

Introduction

- 906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 906.2 Accepting gifts and hospitality from an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R906.3** A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.
- 906.3 A1 Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 906.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 907

ACTUAL OR THREATENED LITIGATION

Introduction

- 907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

- 907.3 A1 The relationship between client management and assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 907.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior assurance engagement.
- 907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.
- 907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

SECTION 910

FINANCIAL INTERESTS

Introduction

- 910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 910.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 910.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

- R910.4** A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
- (a) The firm; or
 - (b) An assurance team member or any of that individual’s immediate family.

Financial Interests in an Entity Controlling an Assurance Client

R910.5 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R910.6 Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

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

Financial Interests Received Unintentionally

R910.7 If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance 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:

- (a) If the interest is received by the firm, 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) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

Financial Interests – Other Circumstances

Close Family

- 910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.
- 910.8 A2 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the assurance team member and the close family member.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest to the close family member.
- 910.8 A3 Examples of actions that might eliminate such a self-interest threat include:
- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
 - Removing the individual from the assurance team.
- 910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

Other Individuals

- 910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:
- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
 - Individuals with a close personal relationship with an assurance team member.
- 910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.
- 910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
 - Having an appropriate reviewer review the work of the assurance team member.

SECTION 911

LOANS AND GUARANTEES

Introduction

- 911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 911.2 A loan or a guarantee of a loan with an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 911.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Loans and Guarantees with an Assurance Client

- R911.4** A firm, an assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:
- (a) The firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution

- R911.5** A firm, an assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.
- 911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.

911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

Deposit or Brokerage Accounts

R911.6 A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution

R911.7 A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- (a) The firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

SECTION 920

BUSINESS RELATIONSHIPS

Introduction

- 920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 920.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm 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 distributes or markets the client’s products or services, or the client distributes or markets the firm’s products or services.

Firm, Assurance Team Member or Immediate Family Business Relationships

- R920.4** A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

Buying Goods or Services

920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create 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 create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

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

SECTION 921

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.
- 921.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the assurance team.
 - The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of an Assurance Team Member

- 921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the subject matter of the engagement.
- 921.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the assurance team member.
- 921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.

- R921.5** An individual shall not participate as an assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the assurance client;
 - (b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or
 - (c) Was in such a position during any period covered by the engagement or the subject matter information.

Close Family of an Assurance Team Member

921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:

- (a) A director or officer of the assurance client; or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Assurance Team Member

- R921.7** An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the assurance client; or
 - (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.

- 921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:
- The nature of the relationship between the individual and the assurance team member.
 - The position the individual holds with the client.
 - The role of the assurance team member.
- 921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

Relationships of Partners and Employees of the Firm

- 921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:
- (a) A partner or employee of the firm who is not an assurance team member; and
 - (b) A director or officer of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement.
- 921.8 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
 - The degree of interaction of the partner or employee of the firm with the assurance team.
 - The position of the partner or employee within the firm.
 - The role of the individual within the client.
- 921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:
- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
 - Having an appropriate reviewer review the relevant assurance work performed.

SECTION 922

RECENT SERVICE WITH AN ASSURANCE CLIENT

Introduction

922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During the Period Covered by the Assurance Report

R922.3 The assurance team shall not include an individual who, during the period covered by the assurance report:

- (a) Had served as a director or officer of the assurance client; or
- (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Service Prior to the Period Covered by the Assurance Report

922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:

- (a) Had served as a director or officer of the assurance client; or
- (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

922.4 A3

An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

SECTION 923

SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

Introduction

- 923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 923.2 Serving as a director or officer of an assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

- R923.3** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

Service as Company Secretary

- R923.4** A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
 - (b) Management makes all decisions; and
 - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-assurances Services to an Assurance Client*.)

SECTION 924

EMPLOYMENT WITH AN ASSURANCE CLIENT

Introduction

924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:

- A director or officer of the assurance client.
- An employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

Former Partner or Assurance Team Member Restrictions

R924.4 If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement,

the individual shall not continue to participate in the firm's business or professional activities.

924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.

924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.

- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
 - Any involvement the individual will have with the assurance team.
 - The length of time since the individual was an assurance team member or partner of the firm.
 - The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.
- 924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:
- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
 - Making arrangements such that any amount owed to the individual is not material to the firm.
 - Modifying the plan for the assurance engagement.
 - Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
 - Having an appropriate reviewer review the work of the former assurance team member.

Assurance Team Members Entering Employment Negotiations with a Client

- R924.5** A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.
- 924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.
- 924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.
- 924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that assurance team member while on the team.

SECTION 940

LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Introduction

- 940.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 940.3 A1 A familiarity threat might be created as a result of an individual's long association with:
- (a) The assurance client;
 - (b) The assurance client's senior management; or
 - (c) The subject matter and subject matter information of the assurance engagement.
- 940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- The nature of the assurance engagement.
 - How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement,

for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the individual who is the responsible party.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide quality control for the assurance engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS

Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R950.3** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.
- 950.3 A1 The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.
- 950.3 A2 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

Evaluating Threats

- 950.4 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:
- The nature, scope and purpose of the service.
 - The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
 - The legal and regulatory environment in which the service is provided.

- Whether the outcome of the service will affect matters reflected in the subject matter or subject matter information of the assurance engagement, and, if so:
 - The extent to which the outcome of the service will have a material or significant effect on the subject matter of the assurance engagement.
 - The extent of the assurance client's involvement in determining significant matters of judgment.
- The level of expertise of the client's management and employees with respect to the type of service provided.

Materiality in Relation to an Assurance Client's Information

950.4 A2 The concept of materiality in relation to an assurance client's information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-assurance Services Provided to the Same Assurance Client

950.4 A3 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Addressing Threats

950.5 A1 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.

Prohibition on Assuming Management Responsibilities

R950.6 A firm shall not assume a management responsibility related to the subject matter or subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter or subject matter information of the assurance engagement provided by the firm.

- 950.6 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the subject matter or subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.
- 950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
 - Hiring or dismissing employees.
 - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
 - Authorizing transactions.
 - Controlling or managing bank accounts or investments.
 - Deciding which recommendations of the firm or other third parties to implement.
 - Reporting to those charged with governance on behalf of management.
 - Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- 950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).
- R950.7** To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are related to the subject matter or subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:
- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the services; and
- (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Other Considerations Related to Providing Specific Non-Assurance Services

950.8 A1 A self-review threat might be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

- (a) Developing and preparing prospective information and subsequently providing assurance on this information.
- (b) Performing a valuation that forms part of the subject matter information of an assurance engagement.

SECTION 990

REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Introduction

990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an “eligible assurance engagement.”

Requirements and Application Material

General

R990.3 When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
- (b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.

990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

R990.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the

firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R990.5 When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

R990.6 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (b) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

R990.8 When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Acceptable level A level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Advertising The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.

Appropriate reviewer *An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant.*

This term is described in paragraph 300.8 A4.

Assurance client The responsible party that is the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the subject matter; or
- (b) In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.

Assurance engagement An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

(For guidance on assurance engagements, see the *International Framework for Assurance Engagements* issued by the International Auditing and Assurance Standards Board. The *International Framework for Assurance Engagements* describes the elements and objectives of an assurance engagement and identifies engagements to which *International Standards on Auditing* (ISAs), *International Standards on Review Engagements* (ISREs) and *International Standards on Assurance Engagements* (ISAEs) apply.)

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Audit *In Part 4A, the term “audit” applies equally to “review.”*

Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. (*See also paragraph R400.20.*)

In Part 4A, the term “audit client” applies equally to “review client.”

Audit engagement A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with *International Standards on Auditing*. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

In Part 4A, the term “audit engagement” applies equally to “review engagement.”

Audit report *In Part 4A, the term “audit report” applies equally to “review report.”*

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

All those within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term “audit team” applies equally to “review team.”

Close family	A parent, child or sibling who is not an immediate family member.
Conceptual framework	<i>This term is described in Section 120.</i>
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period	<i>This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.</i>
Direct financial interest	A financial interest: (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.

Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
Engagement period (Assurance Engagements Other than Audit and Review Engagements)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.

Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
Financial statements on which the firm will	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated

express an opinion financial statements.

- Firm
- (a) A sole practitioner, partnership or corporation of professional accountants;
 - (b) An entity that controls such parties, through ownership, management or other means; and
 - (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.

Fundamental principles

This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:

<i>Integrity</i>	<i>R111.1</i>
<i>Objectivity</i>	<i>R112.1</i>
<i>Professional competence and due care</i>	<i>R113.1</i>
<i>Confidentiality</i>	<i>R114.1</i>
<i>Professional behavior</i>	<i>R115.1</i>

Historical financial information

Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family

A spouse (or equivalent) or dependent.

Independence

Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby

allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit or assurance team member’s, integrity, objectivity or professional skepticism has been compromised.

As set out in paragraphs 400.5 and 900.4, references to an individual or firm being “independent” mean that the individual or firm has complied with Parts 4A and 4B, as applicable.

Indirect financial interest A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Inducement An object, situation, or action that is used as a means to influence another individual’s behavior, but not necessarily with the intent to improperly influence that individual’s behavior.

Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), or between professional accountants and existing or prospective clients (for professional accountants in public practice), to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- *Gifts.*
- *Hospitality.*
- *Entertainment.*
- *Political or charitable donations.*

- *Appeals to friendship and loyalty.*
- *Employment or other commercial opportunities.*
- *Preferential treatment, rights or privileges.*

Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>
Might	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i>
Network	A larger structure: <ul style="list-style-type: none"> (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality

control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm

A firm or entity that belongs to a network.

For further information, see paragraphs 400.50 A1 to 400.54 A1.

Non-compliance with laws and regulations

(Professional Accountants in Business)

Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The professional accountant’s employing organization;*
- (b) Those charged with governance of the employing organization;*
- (c) Management of the employing organization; or*
- (d) Other individuals working for or under the direction of the employing organization.*

This term is described in paragraph 260.5 A1.

Non-compliance with laws and regulations

(Professional Accountants in Public Practice)

Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) A client;*
- (b) Those charged with governance of a client;*
- (c) Management of a client; or*
- (d) Other individuals working for or under the direction of a client.*

This term is described in paragraph 360.5 A1.

Office	A distinct sub-group, whether organized on geographical or practice lines.
Predecessor accountant	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.
Professional accountant	<p>An individual who is a member of an IFAC member body.</p> <p><i>In Part 1, the term “professional accountant” refers to individual professional accountants in business and to professional accountants in public practice and their firms.</i></p> <p><i>In Part 2, the term “professional accountant” refers to professional accountants in business.</i></p> <p><i>In Parts 3, 4A and 4B, the term “professional accountant” refers to professional accountants in public practice and their firms.</i></p>
Professional accountant in business	A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.
Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p><i>The term “professional accountant in public practice” is also used to refer to a firm of professional accountants in public practice.</i></p>
Professional activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.

Professional services

Professional activities performed for clients.

Proposed accountant

A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

Public interest entity

- (a) A listed entity; or
- (b) An entity:
 - (i) Defined by regulation or legislation as a public interest entity; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.

Reasonable and informed third party

The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Reasonable and informed third party test

These terms are described in paragraph 120.5 A4.

Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity
Review client	<p>An entity in respect of which a firm conducts a review engagement.</p>
Review engagement	<p>An assurance engagement, conducted in accordance with <i>International Standards on Review Engagements</i> or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant’s attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.</p>
Review team	<ul style="list-style-type: none"> (a) All members of the engagement team for the review engagement; and (b) All others within a firm who can directly influence the outcome of the review engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);

(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

All those within a network firm who can directly influence the outcome of the review engagement.

Safeguards *Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.*

This term is described in paragraph 120.10 A2.

Senior professional accountant in business *Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.*

This term is described in paragraph 260.11 A1.

Substantial harm *This term is described in paragraphs 260.5 A3 and 360.5 A3.*

Special purpose financial statements *Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.*

Those charged with governance The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats *This term is described in paragraph 120.6 A3 and includes the following categories:*

Self interest 120.6 A3(a)

Self-review 120.6 A3(b)

Advocacy 120.6 A3(c)

Familiarity 120.6 A3(d)

Intimidation 120.6 A3(e)

Time-on period *This term is described in paragraph R540.5.*

LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE

LIST OF ABBREVIATIONS

Abbreviation	Explanation
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQCs	International Standards on Quality Control
ISREs	International Standards on Review Engagements

LIST OF STANDARDS REFERRED TO IN THE CODE

Standard	Full Title
ISA 320	Materiality In Planning and Performing an Audit
ISA 610 (Revised 2013)	Using the Work of Internal Auditors
ISAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
ISQC 1	Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
ISRE 2400 (Revised)	Engagements to Review Historical Financial Statements

EFFECTIVE DATE

The Code is effective.

CHANGES TO THE CODE

I. REVISIONS TO PART 4B OF THE CODE REFLECTING TERMS AND CONCEPTS USED IN -INTERNATIONAL -STANDARD ON ASSURANCE ENGAGEMENTS 3000 -(REVISED)

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[Extant Part 4B will be replaced by Part 4B (Revised) set out below.]

**PART 4B (REVISED) INDEPENDENCE FOR ASSURANCE EN-
GAGEMENTS OTHER THAN AUDIT AND REVIEW
-ENGAGEMENTS**

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SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's greenhouse gas statement.
- An audit of specific elements, accounts or items of a financial statement.

900.2 In this Part, the term "professional accountant" refers to individual professional accountants in public practice and their firms.

900.3 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. In addition, ISAEs and ISAs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with ISQC 1. Additionally, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.

900.4 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing assurance engagements other than audit or review engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.6 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

Description of Assurance Engagements

900.7 In an assurance engagement, the firm aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard, and the Assurance Framework provides a general description of assurance engagements. An assurance engagement might either be an attestation engagement or a direct engagement.

900.8 In this Part, the term ‘assurance engagement’ refers to assurance engagements other than audit engagements and review engagements.

Reports that Include a Restriction on Use and Distribution

900.9 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

Audit and Review Engagements

900.10 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

Requirements and Application Material

General

R900.11 A firm performing an assurance engagement shall be independent of the assurance client.

900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.

900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a

separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

R900.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.13 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- (a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- (b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

Network Firms

R900.14 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.14 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Related Entities

R900.15 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 900.16 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and non-assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

[Paragraphs 900.34 to 900.39 are intentionally left blank]

General Documentation of Independence for Assurance Engagements

R900.40 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

900.40 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 900.41 to 900.49 are intentionally left blank]

Breach of an Independence Provision for Assurance Engagements

When a Firm Identifies a Breach

R900.50 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach;
- (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

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 would be unable to issue an assurance report.

R900.51 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

R900.52 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

R900.53 If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

Documentation

R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

R900.55 If the firm continues with the assurance engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

SECTION 905

FEES

Introduction

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Fees—Relative Size

- 905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 905.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
 - Whether the firm is well established or new.
 - The significance of the client qualitatively and/or quantitatively to the firm.
- 905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.
- 905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Increasing the client base of the partner to reduce dependence on the assurance client.
 - Having an appropriate reviewer who was not an assurance team member review the work.

Fees—Overdue

905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

905.4 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.5 When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Contingent Fees

905.6 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.7 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.8 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.9 A1 Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

905.9 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.

- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9 A3

Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

SECTION 906

GIFTS AND HOSPITALITY

Introduction

- 906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 906.2 Accepting gifts and hospitality from an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R906.3** A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.
- 906.3 A1 Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 906.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 907

ACTUAL OR THREATENED LITIGATION

Introduction

- 907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

- 907.3 A1 The relationship between client management and assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 907.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior assurance engagement.
- 907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.
- 907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

SECTION 910

FINANCIAL INTERESTS

Introduction

- 910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 910.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 910.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

- R910.4** A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
- (a) The firm; or
 - (b) An assurance team member or any of that individual’s immediate family.

Financial Interests in an Entity Controlling an Assurance Client

R910.5 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R910.6 Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

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

Financial Interests Received Unintentionally

R910.7 If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance 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:

- (a) If the interest is received by the firm, 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) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

Financial Interests – Other Circumstances

Close Family

- 910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.
- 910.8 A2 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the assurance team member and the close family member.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest to the close family member.
- 910.8 A3 Examples of actions that might eliminate such a self-interest threat include:
- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
 - Removing the individual from the assurance team.
- 910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

Other Individuals

- 910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:
- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
 - Individuals with a close personal relationship with an assurance team member.
- 910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.
- 910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
 - Having an appropriate reviewer review the work of the assurance team member.

SECTION 911

LOANS AND GUARANTEES

Introduction

- 911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 911.2 A loan or a guarantee of a loan with an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 911.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Loans and Guarantees with an Assurance Client

- R911.4** A firm, an assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:
- (a) The firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution

- R911.5** A firm, an assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.
- 911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.

911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

Deposit or Brokerage Accounts

R911.6 A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution

R911.7 A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- (a) The firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

SECTION 920

BUSINESS RELATIONSHIPS

Introduction

- 920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 920.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm 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 distributes or markets the client’s products or services, or the client distributes or markets the firm’s products or services.

Firm, Assurance Team Member or Immediate Family Business Relationships

- R920.4** A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

Buying Goods or Services

920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create 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 create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

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

SECTION 921

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.
- 921.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the assurance team.
 - The role of the family member or other individual within the assurance client, and the closeness of the relationship.

Immediate Family of an Assurance Team Member

- 921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the underlying subject matter of the assurance engagement.
- 921.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the assurance team member.
- 921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.

R921.5 An individual shall not participate as an assurance team member when any of that individual's immediate family:

- (a) Is a director or officer of the assurance client;
- (b) In an attestation engagement, is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or
- (c) Was in such a position during any period covered by the engagement or the subject matter information.

Close Family of an Assurance Team Member

921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:

- (a) A director or officer of the assurance client; or
- (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Assurance Team Member

R921.7 An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

- (a) A director or officer of the assurance client; or

- (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.
- The role of the assurance team member.

921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

Relationships of Partners and Employees of the Firm

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

- (a) A partner or employee of the firm who is not an assurance team member; and
- (b) Any of the following individuals at the assurance client:
- i. A director or officer;
 - ii. An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.8 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the assurance team.

- The position of the partner or employee within the firm.
- The role of the individual within the client.

921.8 A3

Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

SECTION 922

RECENT SERVICE WITH AN ASSURANCE CLIENT

Introduction

- 922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During the Period Covered by the Assurance Report

- R922.3** The assurance team shall not include an individual who, during the period covered by the assurance report:
- (a) Had served as a director or officer of the assurance client; or
 - (b) Was an employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Service Prior to the Period Covered by the Assurance Report

- 922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:
- (a) Had served as a director or officer of the assurance client; or
 - (b) Was an employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

922.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

SECTION 923

SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

Introduction

- 923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 923.2 Serving as a director or officer of an assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

- R923.3** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

Service as Company Secretary

- R923.4** A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

- 923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-assurance Services to an Assurance Client*.)

SECTION 924

EMPLOYMENT WITH AN ASSURANCE CLIENT

Introduction

- 924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:
- A director or officer of the assurance client.
 - An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Former Partner or Assurance Team Member Restrictions

- R924.4** If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:
- (a) A director or officer; or
 - (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement, the individual shall not continue to participate in the firm's business or professional activities.
- 924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.
- 924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.

- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:
- (a) The position the individual has taken at the client.
 - (b) Any involvement the individual will have with the assurance team.
 - (c) The length of time since the individual was an assurance team member or partner of the firm.
 - (d) The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.
- 924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:
- (a) Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
 - (b) Making arrangements such that any amount owed to the individual is not material to the firm.
 - (c) Modifying the plan for the assurance engagement.
 - (d) Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
 - (e) Having an appropriate reviewer review the work of the former assurance team member.

Assurance Team Members Entering Employment Negotiations with a Client

- R924.5** A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.
- 924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.
- 924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.
- 924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that assurance team member while on the team.

SECTION 940

LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Introduction

- 940.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 940.3 A1 A familiarity threat might be created as a result of an individual's long association with:
- (a) The assurance client;
 - (b) The assurance client's senior management; or
 - (c) The underlying subject matter or, in an attestation engagement, subject matter information of the assurance engagement.
- 940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- The nature of the assurance engagement.
 - How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement,

for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the underlying subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals at the assurance client who are responsible for the underlying subject matter or, in an attestation engagement, the subject matter information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an assurance team member and an individual at the assurance client who is in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, the subject matter information, would be reduced by the departure of that individual from the client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide quality control for the assurance engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO -ASSURANCE CLIENTS -

Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R950.3** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.
- 950.3 A1 The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.
- 950.3 A2 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

Evaluating Threats

- 950.4 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:
- The nature, scope and purpose of the service.
 - The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
 - The legal and regulatory environment in which the service is provided.

- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
 - The extent to which the outcome of the service will have a material or significant effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
 - The extent of the assurance client's involvement in determining significant matters of judgment.
- The level of expertise of the client's management and employees with respect to the type of service provided.

Materiality in Relation to an Assurance Client's Information

950.4 A2 The concept of materiality in relation to an assurance client's subject matter information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-assurance Services Provided to the Same Assurance Client

950.4 A3 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Addressing Threats

950.5 A1 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.

Prohibition on Assuming Management Responsibilities

R950.6 A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service

provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

950.6 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).

R950.7 To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are related to the underlying subject matter and, in an attestation engagement, the subject

matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the services; and
 - (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Other Considerations Related to Providing Specific Non-Assurance Services

950.8 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

- (a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.
- (b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

SECTION 990

REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Introduction

- 990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an “eligible assurance engagement.”

Requirements and Application Material

General

- R990.3** When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:
- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
 - (b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.
- 990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.
- R990.4** Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the

firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R990.5 When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

R990.6 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

R990.8 When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

...

[Extant terms “assurance client”, “assurance engagement” and “financial statements” will be replaced with the terms below.]

...

Assurance client The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

Assurance engagement An engagement in which a professional accountant in public practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information.

(ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and the Assurance Framework provides a general description of assurance engagements to which *International Standards on Auditing (ISAs)*, *International Standards on Review Engagements (ISREs)* and *International Standards on Assurance Engagements (ISAEs)* apply.)

In Part 4B, the term ‘assurance engagement’ addresses assurance engagements other than audit engagements or review engagements.

Financial statements A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a

summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

The term does not refer to specific elements, accounts or items of a financial statement.

[The terms “attestation engagement”, “criteria”, “direct engagement”, “responsible party”, “subject matter information” and “underlying subject matter” below will be added to the Glossary.]

Attestation engagement An assurance engagement in which a party other than the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria.

A party other than the accountant also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant in the assurance report. In an attestation engagement, the accountant’s conclusion addresses whether the subject matter information is free from material misstatement.

The accountant’s conclusion may be phrased in terms of:

- (i) The underlying subject matter and the applicable criteria;
- (ii) The subject matter information and the applicable criteria; or
- (iii) A statement made by the appropriate party.

Criteria In an assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.

Direct engagement	An assurance engagement in which the professional accountant in public practice measures or evaluates the underlying subject matter against the applicable criteria and the accountant presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the accountant's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Responsible party	In an assurance engagement, the party responsible for the underlying subject matter.
Subject matter information	The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.
Underlying subject matter	The phenomenon that is measured or evaluated by applying criteria.

EFFECTIVE DATE

Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after June 15, 2021; otherwise, it will be effective as of June 15, 2021. Early adoption will be permitted.

II. REVISIONS TO PROMOTE THE ROLE AND MINDSET -EXPECTED OF PROFESSIONAL ACCOUNTANTS

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PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

[Paragraphs 100.1 to 100.7 A1 together with the headings below will replace extant paragraphs 100.1 A1 to 100.3 A2 and the heading above paragraph 100.1 A1.]

Introduction

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other

assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice.

Requirements and Application Material

100.5 A1 The requirements in the Code, designated with the letter “R,” impose obligations.

100.5 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

R100.6 A professional accountant shall comply with the Code.

100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable professional accountants to meet their responsibility to act in the public interest.

100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.

100.6 A3 Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which an accountant believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the accountant is encouraged to consult with an appropriate body such as a professional or regulatory body.

100.6 A4 In acting in the public interest, a professional accountant considers not only the preferences or requirements of an individual client or employing organization, but also the interests of other stakeholders when performing professional activities.

R100.7 If there are circumstances where laws or regulations preclude a professional accountant from complying with certain parts of the Code, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

100.7 A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

Breaches of the Code

[Extant paragraphs R100.4 to 100.4 A1 will be renumbered paragraphs R100.8 to 100.8 A1.]

...

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

[Subparagraphs (b) and (e) in extant paragraph 110.1 A1 will be replaced by subparagraphs (b) and (e) below.]

...

...

- (b) Objectivity – to exercise professional or business judgment without being compromised by:
 - (i) Bias;
 - (ii) Conflict of interest; or
 - (iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

...

- (e) Professional Behavior – to:
 - (i) Comply with relevant laws and regulations;
 - (ii) Behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships; and
 - (iii) Avoid any conduct that the professional accountant knows or should know might discredit the profession.

...

[Extant paragraph 110.2 A1 will be replaced by paragraph 110.2 A1 below.]

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

...

SUBSECTION 111 – INTEGRITY

[Extant paragraph 111.1 A1 will be replaced by paragraph 111.1 A1 below.]

111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

[Paragraph 111.1 A2 below will be added after paragraph 111.1 A1.]

111.1 A2 Acting appropriately involves:

- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
- (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

...

SUBSECTION 112 – OBJECTIVITY

[Extant paragraph R112.1 will be replaced by paragraph R112.1 below.]

R112.1 A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgment without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

...

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

...

[Extant paragraph 113.1 A2 will be replaced by paragraph 113.1 A2 below.]

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and

technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

...

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

[Extant paragraph R115.1 will be replaced by paragraph R115.1 below.]

R115.1 A professional accountant shall comply with the principle of professional behavior, which requires an accountant to:

- (a) Comply with relevant laws and regulations;
- (b) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and
- (c) Avoid any conduct that the accountant knows or should know might discredit the profession.

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

...

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

...

Requirements and Application Material

General

...

[Paragraphs R120.5 to 120.5 A3 together with the headings below will replace extant paragraphs R120.5 to 120.5 A3.]

R120.5 When applying the conceptual framework, the professional accountant shall:

- (a) Have an inquiring mind;
- (b) Exercise professional judgment; and
- (c) Use the reasonable and informed third party test described in paragraph 120.5 A6.

Having an Inquiring Mind

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
- (b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the professional accountant might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.

- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all professional accountants to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all accountants regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the IAASB, accountants are also required to exercise professional skepticism, which includes a critical assessment of evidence.

Exercising Professional Judgment

120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

120.5 A5 Professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the accountant might consider matters such as whether:

- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.

[Extant paragraph 120.5 A4 will be renumbered paragraph 120.5 A6.]

...

Identifying Threats

...

[Subparagraph (b) in extant paragraph 120.6 A3 will be replaced by subparagraph (b) below.]

...

- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the accountant or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;

...

Evaluating Threats

...

Factors Relevant in Evaluating the Level of Threats

...

[Extant paragraph 120.8 A2 will be replaced by paragraph 120.8 A2 below.]

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

...

[Paragraphs 120.12 A1 to 120.13 A3 together with the headings below will be added after extant paragraph R120.11.]

Other Considerations when Applying the Conceptual Framework

Bias

- 120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.
- 120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:
- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
 - Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
 - Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
 - Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
 - Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
 - Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
 - Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
 - Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

- 120.12 A3 Actions that might mitigate the effect of bias include:
- Seeking advice from experts to obtain additional input.
 - Consulting with others to ensure appropriate challenge as part of the evaluation process.
 - Receiving training related to the identification of bias as part of professional development.

Organizational Culture

120.13 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 Professional accountants are expected to encourage and promote an ethics-based culture in their organization, taking into account their position and seniority.

[Paragraph 120.14 A1 together with the headings below will be added above extant paragraph 120.12 A1.]

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Independence

[Extant paragraph 120.12 A1 to 120.12 A2 will be renumbered paragraphs 120.15 A1 to 120.15 A5.]

Professional Skepticism

[Extant paragraph 120.13 A1 will be renumbered paragraph 120.16 A1]

[Extant paragraph 120.13 A2 will be replaced by paragraph 120.16 A2 below.]

120.16 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
 - Being straightforward and honest when raising concerns about a position taken by a client.
 - Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
 - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:
 - (a) Standing one's ground when confronted by dilemmas and difficult situations; or
 - (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the professional accountant to exercise professional or business judgment without being compromised by:
 - (a) Bias;
 - (b) Conflict of interest; or
 - (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

For example, the accountant complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:
 - (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
 - (b) Designing and performing appropriate audit procedures; and
 - (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

...

Requirements and Application Material

General

...

[Extant paragraph 200.5 A3 will be replaced by paragraph 200.5 A3 below.]

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

...

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

...

Requirements and Application Material

General

...

[Extant paragraph R220.4 will be replaced by paragraph R220.4 below.]

R220.4 When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature of business transactions or activities; and
 - (iii) Classify and record information in a timely and proper manner;
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;
- (e) Avoid undue influence of, or undue reliance on, individuals, organizations or technology; and
- (f) Be aware of the risk of bias.

...

Relying on the Work of Others

[Extant paragraph R220.7 will be replaced by paragraph R220.7 below.]

R220.7 A professional accountant who intends to rely on the work of other individuals, either internal or external to the employing organization, or

other organizations shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

...

[The term “professional judgement” below will be added to the Glossary.]

Professional judgment *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.*

This term is described in paragraph 120.5 A4.

...

[The cross reference to extant paragraph 120.5 A4 in the last line of the description of “reasonable and informed third party test” will be replaced by paragraph 120.5 A6 as set out below.]

Reasonable and informed third party *The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner.*

These terms are described in paragraph 120.5 A6.

...

EFFECTIVE DATE

The role and mindset revisions will be effective as of December 31, 2021. Early adoption will be permitted.



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