

**CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS
IN SAFA COUNTRIES**

**PREPARED BY:
SAFA ETHICS & INDEPENDENCE COMMITTEE
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SECTION-I

FOREWORD

The high profile corporate collapses in the United States and other countries around the globe in 2001-3 have caused serious erosion of public confidence in the accountancy profession worldwide.

In order to regain and further strengthen the lost public confidence the lawmakers, regulators and accountancy professional bodies around the world have embarked upon various initiatives.

In the United States, the United States Congress has enacted the Sarbanes-Oxley Act of 2002. This Act requires, inter alia, that the accountancy firms based in the U.S.A. should be registered with Public Company Accounting Oversight Board (PCAOB) for the purpose of monitoring their compliance with laws and standards. In the United Kingdom and European Union too, the Governments are contemplating legislative measures to strengthen independence and oversight of the accountancy profession.

The International Federation of Accountants (IFAC) too has issued an Exposure Drafts titled “ Proposed Revised Code of Ethics for Professional Accountants” in July 2003 which was further revised November 2003.

The IFAC Code places greater emphasis on the subject of Independence of Professional Accountants in Public Practice. The Code, which is applicable to all accountants in diverse fields, provides separate sections for Professional Accountants in Public Practice as well as for Professional Accountants in Business. This Code is currently being reviewed by a Steering Committee appointed by the IFAC Ethics Committee.

South Asia as a region has its own unique and diverse professional, legal economic and social framework. It was in this context that SAFA felt the necessity to develop its own Code of Ethics for Professional Accountants primarily on the basis of the Code of Ethics and exposure drafts issued by the International Federation of Accountants from time to time. For this purpose a survey of the existing Code of Ethics of SAFA Member Bodies was conducted along with a study of the corporate legal requirements in the respective countries. The result is the report of the "Code of ethics for professional Accountants in SAFA countries".

This report is based on the premise that standards based on ethics are not only preferable to rule based standards but they are also in public interest. Professional accountants must apply safeguards, moral and financial, to eliminate threats to ensure that ethical compliance is never compromised.

The Code establishes a regional model, with the recommendation that no SAFA Member Body or firm applies less stringent standards than those stated in the Code unless the law, regulation or culture of a SAFA Member Body provides otherwise.

The Code is divided into three parts:

- (a) Part A applies to all professional accountants.
- (b) Part B applies to professional accountants in public practice.
- (c) Part C applies to professional accountants in business.

The Code revolves around the fundamental principles, which are: (a) Integrity; (b) Objectivity; (c) Professional Competence, (d) Due diligence, (e) Confidentiality; and (f) Professional Behavior.

SAFA Ethics & Independence Committee appreciates the foresight of the SAFA Assembly to identify the need for such a study. It also appreciates the generous contributions made by the Member Bodies in the form of comments and guidance. To all of them I remain grateful. I am also deeply grateful to all my colleagues on the committee for helping me with their valued counsel. This report would never have seen the light of day without the magnificent efforts of Mr AKM Sahabub Alam FCS, FCMA, FCA, PhD of Bangladesh. To him I remain truly grateful.

Jamal Uddin Ahmad FCA
Chairman
SAFA Ethics & Independence Committee

March 2004

SECTION-II

SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA)

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

EXPLANATORY MEMORANDUM

INTRODUCTION

This memorandum provides background to, and explanation of, the SAFA Code of Ethics for Professional Accountants (the Code), prepared by the SAFA Ethics and Independence Committee for guidance of the SAFA Member Bodies.

The Code has been prepared on the basis of the “Code of Ethics for Professional Accountants”, revised up to November 2001; Exposure Draft “Proposed Revised Code of Ethics for the Professional Accountants”, July 2003; and “Proposed Revision to Code of Ethics for Professional Ethics”, November 2003; issued by the International Federation of Accountants (IFAC); and a Survey of Code of Ethics of SAFA Member Bodies conducted in December 2003, amongst others.

The Code establishes the fundamental principles of professional ethics for professional accountants in SAFA Countries and provides a conceptual framework for applying those principles. Unless a limitation is specifically stated, the fundamental principles are equally valid for all professional accountants.

The SAFA Ethics and Independence Committee, in line with the IFAC Ethics Committee, believes that the establishment of a conceptual framework that requires professional accountants to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules (presently set out by the respective SAFA Member Bodies) which may be arbitrary, is in the public interest. The Code represents a conceptual change and member bodies will need to consider the training requirements that may be required for successful implementation.

The Code establishes a regional model, thereby recommending that no SAFA member body or firm applies less stringent standards than those stated in the Code unless prohibited by law or regulation. This marked a departure for the Code in two respects - firstly, the adoption of the principles based approach and, secondly, the degree of authority given to the Code. Although it was made clear that the basic intent of the Code should always be respected, the Code in itself was not required to be regarded as a standard.

THE FRAMEWORK APPROACH

The Code establishes the fundamental principles of ethics for professional accountants in SAFA Countries and provides a conceptual framework to assist professional accountants to identify, evaluate and respond to threats to compliance with those principles. If identified threats are other than clearly insignificant, professional accountants are required, where appropriate, to apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

The SAFA Ethics and Independence Committee believes that such a framework approach is preferable to a rules based approach to ethics which cannot provide for all circumstances and may lead to unquestioning obedience to the letter of a rule while setting definitive lines in legislation that some will try to circumnavigate.

STRUCTURE OF THE CODE

The Code is divided into three parts:

- (a) Part A applies to all professional accountants.
- (b) Part B applies to professional accountants in public practice.
- (c) Part C applies to professional accountants in business.

The Code also includes a definitions section.

The format means that professional accountants in public practice will need to be familiar with Parts A and B, and professional accountants in business will need to be familiar with Parts A and C. There is a certain amount of repetition of material from Part A in both Parts B and C, intended to aid in the readability and understandability of those two Parts. However, this does not remove the need for all professional accountants to be familiar with all of Part A.

AREAS OF GUIDANCE

Part A of the Code sets out the fundamental principles and explains the framework approach. It also sets out:

- (a) The categories into which many threats to compliance with the fundamental principles may fall;
- (b) Examples of safeguards created by the profession, legislation or regulation; and
- (c) Examples of safeguards that may increase the likelihood of identifying or deterring unethical behavior.

This Part also includes guidance regarding the resolution of ethical conflicts.

Parts B and C of the Code include examples that are intended to illustrate the application of the principles. They identify various circumstances posing potential threats to compliance with the fundamental principles that may be experienced by professional accountants in public practice and professional accountants in business. Examples of safeguards against such threats are also provided, including potential safeguards created in the work

environment or by the client. These examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples presented; rather, they should apply the principles to the particular circumstances they encounter.

DEFINITIONS

In this Code, the following expressions have the following meanings assigned to them:

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.

Audit client: An entity in respect of which a firm conducts an audit engagement. When the audit client is a listed entity, audit client will always include its related entities.

Audit engagement: An assurance engagement to provide a high level of assurance that financial statements are free of material misstatement, such as an engagement in accordance with International Standards on Auditing (ISAs) as adopted by the respective Member Body of SAFA. This includes a Statutory Audit which is an audit required by national legislation or other regulation.

Assurance client: An entity in respect of which a firm conducts an assurance engagement.

Assurance engagement: An engagement conducted to provide:

(a) A high level of assurance that the subject matter conforms in all material respects with identified suitable criteria; or

(b) A moderate level of assurance that the subject matter is plausible in the circumstances. This would include an engagement in accordance with the International Standard on Assurance Engagements (IASE) issued by the International Auditing and Assurance Standards Board (IASSB) or in accordance with specific standards for assurance engagements issued by the IAASSB such as an audit or review of financial statements in accordance with ISAs as adopted by the respective Member Body of SAFA.

Assurance team: (a) All professionals participating in the assurance engagement;

(b) All others within a firm who can directly influence the outcome of the assurance engagement, including: 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. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through the firm's chief executive; those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and those who provide quality control for the assurance engagement; and

(c) For the purposes of an audit client, all those within a network firm who can directly influence the outcome of the audit engagement.

Client account: Any bank account, which is used solely for the banking of clients' monies.

Close family: A parent, non-dependent child or sibling.

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.

Directors and officers: Those charged with the governance of an entity, regardless of their title, which may vary from country to country.

Existing accountant: A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.

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.

- Firm:** (a) A sole practitioner, partnership or corporation of professional accountants;
(b) An entity that controls such parties; and
(c) An entity controlled by such parties.

Immediate family: A spouse (or equivalent) or dependent.

Independence: Independence is:

- (a) Independence of mind - the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

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.

Lead engagement partner in connection with an audit: the partner responsible for signing the report on the consolidated financial statements of the audit client, and, where relevant, the partner responsible for signing the report in respect of any entity whose financial statements form part of the consolidated financial statements and on which a separate stand-alone report is issued. When no consolidated financial statements are prepared, the lead engagement partner would be the partner responsible for signing the report on the financial statements.

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.

Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

Objectivity: A combination of impartiality, intellectual honesty and a freedom from conflicts of interest.

Office: A distinct sub-group, whether organized on geographical or practice lines.

Practice: A sole practitioner, a partnership or a corporation of professional accountants, which offers professional services to the public.

Professional accountant: A person who is a member of a SAFA member body.

Professional accountant in business: A professional accountant employed in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies.

Professional accountant in public practice: Each partner or person occupying a position similar to that of a partner, and each employee in a practice providing professional services to a client irrespective of their functional classification (e.g., audit, tax or consulting) and professional accountants in a practice having managerial responsibilities. This term is also used to refer to a firm of professional accountants in public practice.

Publicity: The communication to the public of facts about a professional accountant, which are not designed for the deliberate promotion of that professional accountant.

Receiving accountant: A professional accountant in public practice to whom the existing accountant or client of the existing accountant has referred audit, accounting, taxation, consulting or similar appointments, or who is consulted in order to meet the needs of the client.

Related entity: An entity that has any of the following relationships with the client:

(a) An entity that has direct or indirect control over the client provided the client is material to such entity;

(b) An entity with a direct financial interest in the client provided that such 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 (hereinafter a "sister entity") provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

Solicitation: The approach to a potential client for the purpose of offering professional services.

APPLICATION OF THE CODE

The Code set out below is divided into three parts:

- * Part A applies to all professional accountants.
- * Part B applies to professional accountants in public practice.
- * Part C applies to professional accountants in business.

PART A: ALL PROFESSIONAL ACCOUNTANTS

SECTION 1 Introduction

SECTION 2 Integrity

SECTION 3 Objectivity

SECTION 4 Professional competence and due care

SECTION 5 Confidentiality

SECTION 6 Professional behaviour

SECTION 1

INTRODUCTION

GENERAL

1.1 This Part of the Code applies to all professional accountants.

1.2 The South Asian Federation of Accountants (SAFA) believes that preparing detailed ethical requirements is primarily the responsibility of the member bodies in each country, which are also responsible for implementing and enforcing such requirements.

1.3 SAFA also believes that the global identity of the accountancy profession is characterized by its endeavour to achieve a number of common objectives and by its observance of certain fundamental principles for that purpose.

1.4 SAFA, recognizing the responsibilities of the accountancy profession and considering its own role to be that of establishing high quality standards, providing guidance, encouraging continuity of efforts and promoting harmonization, has deemed it essential to establish a Code of Ethics for Professional Accountants in SAFA Countries. This Code will serve as the basis for the ethical requirements for professional accountants in each country.

1.5 No member body or firm applies less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts of this Code.

THE PUBLIC INTEREST

1.6 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.

1.7 The public interest is considered to be the collective well-being of the community of people and institutions the professional accountant serves, including clients, lenders, governments, employers, employees, investors, the business and financial community and others who rely on the work of professional accountants.

1.8 This Code sets out the professional accountant's ethical responsibilities to act in the public interest.

FRAMEWORK APPROACH

1.9 This Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. Unless a limitation is specifically stated, the fundamental principles are equally valid for all professional accountants.

1.10 The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate mitigating action. In addition, the nature of engagements and assignments may differ and consequently different threats may exist, requiring the application of different

safeguards. A conceptual framework that requires professional accountants to identify, evaluate and address these threats to an acceptable level, such that compliance with the fundamental principles is not compromised.

1.11 Professional accountants should take qualitative as well as quantitative factors into account when considering the significance of any potential threat. If they cannot implement appropriate safeguards, they should either decline or discontinue the specific professional service involved, or consider resigning from the client (in the case of professional accountants in public practice) or the employing organization (in the case of professional accountants in business).

1.12 Professional accountants have an obligation to evaluate any threats to compliance with the fundamental principles when they know, or could reasonably be expected to know, of circumstances or relationships that might compromise compliance with the fundamental principles. There may be occasions when a professional accountant inadvertently violates provision of this Code. If that happens, depending on the nature and significance of the matter, it may not compromise compliance with the fundamental principles as long as, once the violation is discovered, its effect is evaluated promptly, corrected when appropriate and any necessary safeguards are applied.

1.13 Parts B and C of this Code include examples that are intended to illustrate the application of the principles and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples presented; rather, they should apply the principles to the particular circumstances they encounter.

FUNDAMENTAL PRINCIPLES

1.14 The fundamental principles are:

(a) Integrity

A professional accountant should be straightforward and honest in all professional and business relationships.

(b) Objectivity

A professional accountant should not allow prejudice or bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) Professional Competence and Due Care

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards in all professional and business relationships. A professional accountant should comply with the IASs and ISAs as adopted by the respective Member Body of SAFA; standards and guidelines issued by the respective Member Body of SAFA; and also related laws of the respective country.

(d) Confidentiality

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

(e) Professional Behavior

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

THREATS AND SAFEGUARDS

1.15 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest threats, which may occur as a result of the financial or other interests of professional accountants or of immediate or close family members;**
- (b) Self-review threats, which may occur when a previous judgment needs to be reevaluated by the professional accountant responsible for that judgment;**
- (c) Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;**
- (d) Familiarity threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and**
- (e) Intimidation threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.**

Parts B and C of this Code, respectively, provide examples of circumstances that may create these categories of threat for professional accountants in public practice and professional accountants in business.

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

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

1.17 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

- (a) Educational, training and experience requirements for entry into the profession.**
- (b) Continuing professional development requirements.**

(c) Corporate governance regulations.

(d) Professional standards.

(e) Professional or regulatory monitoring and disciplinary procedures.

(f) External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

1.18 Parts B and C of this Code, respectively, also discuss safeguards in the work environment for professional accountants in public practice and those in business.

1.19 Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organization, include, but are not restricted to:

* Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.

* An explicitly stated duty to report breaches of ethical requirements.

1.20 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising their judgment, professional accountants should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.

ETHICAL CONFLICT RESOLUTION

1.21 In applying standards of ethical conduct, professional accountants may encounter problems in resolving an ethical conflict. When faced with significant ethical issues, they should follow the established policies of their firm, employing organization or professional body to try and resolve the conflict.

1.22 When initiating either a formal or informal conflict resolution process, professional accountants should consider the following, either individually or together with others, as part of the resolution process:

- (a) Relevant facts;
- (b) Ethical issues involved;
- (c) Fundamental principles related to the matter in question;
- (d) Established internal procedures; and
- (e) Alternative courses of action.

Having considered these issues, professional accountants should determine the best course of action consistent with the fundamental principles identified. They should also weigh the consequences of each possible course of action. If the matter remains unresolved, they should approach other appropriate persons within their firm or their employing organization for help in obtaining resolution.

1.23 Where a matter involves a conflict with, or within, an organization, professional accountants should also consider approaching the audit committee or other body responsible for governance of that organization. It may be in the best interests of the professional accountants to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.

1.24 If a significant conflict cannot be resolved, professional accountants may wish to consult the relevant professional body, which may be able to provide guidance on ethical issues without breaching confidentiality. They may also consider seeking legal advice.

1.25 If, after exhausting all relevant possibilities, the matter remains unresolved, professional accountants should, where possible, refuse to remain associated with the matter. They may also consider whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

SECTION 2

INTEGRITY

2.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.

2.2 Professional accountants should not be associated with reports, returns, communications or other information where they believe that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information furnished recklessly; or

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

SECTION 3

OBJECTIVITY

3.1 The principle of objectivity imposes an obligation on all professional accountants that their professional or business judgment should not be compromised by prejudice or bias, conflict of interest or the undue influence of others.

3.2 Professional accountants may be exposed to situations that may impair their objectivity. It is impracticable to define and prescribe all such situations. **Relationships that allow prejudice, bias or the undue influences of others to override professional judgment should be avoided.**

SECTION 4

PROFESSIONAL COMPETENCE AND DUE CARE

4.1 The principle of professional competence and due care imposes the following obligations on professional accountants:

- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- (b) To act diligently in accordance with applicable technical and professional standards in all professional and business relationships.

4.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

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

4.3 The attainment of professional competence initially requires a high standard of general education, followed by specific education, training and examination in professionally relevant subjects and, if prescribed, a period of work experience. This should be the normal pattern of development for professional accountants. Professional accountants should also take steps to ensure that those working under their authority in a professional capacity have appropriate training.

4.4 The maintenance of professional competence requires a continuing awareness of relevant technical, professional and business developments.

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

4.6 Where appropriate, professional accountants should make clients or employers aware of limitations inherent in certain services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

SECTION 5

CONFIDENTIALITY

5.1 The principle of confidentiality imposes an obligation on professional accountants to refrain from:

(a) Disclosing confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

(b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

5.2 Professional accountants should maintain confidentiality even in a social environment, particularly in circumstances where long association with business associates or close or immediate family relationships might result in their being less alert to the possibility that they may be inadvertently indiscreet.

5.3 Professional accountants should also maintain confidentiality regarding information disclosed by prospective clients or employers.

5.4 Professional accountants should take all reasonable steps to ensure that staff under their control and persons from whom advice and assistance is obtained respect the duty of confidentiality.

5.5 The need to comply with the principle of confidentiality continues even after the end of relationships between professional accountants and their clients or employers. When professional accountants change employment or acquire new clients, they are entitled to use the experience gained in their previous activities. They should not, however, use or disclose any confidential information either acquired or received by them as a result of a professional or business relationship.

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

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

(b) Disclosure is required by law, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings;

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(c) There is a professional duty or right to disclose, when not prohibited by law:

(i) To comply with technical standards and ethics requirements;

(ii) To protect the professional interests of a professional accountant in legal proceedings;

(iii) To comply with the quality review of a member body or professional body; or

(iv) To respond to an inquiry or investigation by a member body or regulatory body.

5.7 In deciding whether to disclose confidential information, professional accountants should consider the following points:

(a) When a client or employer gives authorization to disclose information, whether or not the interests of all the parties, including third parties whose interests might be affected, could be harmed;

(b) Whether or not all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any; and

(c) The type of communication that is expected and to whom it is addressed; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

SECTION 6

PROFESSIONAL BEHAVIOUR

6.1 The principle of professional behaviour imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that might bring discredit to the profession. For example, not being a fellow, President, Vice-president or a member of Council of the Institute, style himself being so. Generally, willfully malign the Institute, the Council or its Committees to lower the prestige, or to interfere with the performance of their duties in relation to himself or others. **Because such behaviour discredits profession, the professional accountants should not do so.** This also applies to situations, which could be presumed by a reasonable and informed third party, having knowledge of all relevant information, to impact on the good reputation of the profession.

6.2 In marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute. Professional accountants should be honest and truthful and should not:

(a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or

(b) Make disparaging references or unsubstantiated comparisons to the work of others.

PART B: PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 1 Introduction

SECTION 2 Behavior in public practice

SECTION 3 Conflicts of interest

SECTION 4 Changes in a professional appointment

SECTION 5 Second opinions

SECTION 6 Fees and other types of remuneration

SECTION 7 Custody of client assets

SECTION 8 Independence

SECTION 1

INTRODUCTION

GENERAL

1.1 This Part of the Code applies to all professional accountants in public practice. Professional accountants in public practice should also follow the guidance set out in Part A of this Code, which applies to all professional accountants. Where the term “professional accountants” is used in this Part, it should be taken to refer to professional accountants in public practice.

1.2 Professional accountants in public practice should comply with the fundamental principles, which are: (a) Integrity; (b) Objectivity; (c) Professional Competence and Due Care; (d) Confidentiality; and (e) Professional Behavior, discussed more fully in Section 1.14 of Part A.

1.3 Professional accountants in public practice should not concurrently engage in any business, occupation or activity that impairs or might impair their integrity, objectivity or the good reputation of the profession and that would be incompatible with the rendering of professional services.

1.4 The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. This Part of the Code of Ethics provides a framework, built on principles, to assist professional accountants in public practice to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, professional accountants should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised. If they cannot implement appropriate safeguards, professional accountants should either decline or discontinue the specific engagement involved or consider withdrawing from the client relationship.

1.5 The examples in the following sections are intended to illustrate the application of the principles and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants in public practice that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples presented; rather, they should apply the principles to the particular circumstances they face.

1.6 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest;
- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and
- (e) Intimidation.

These threats are discussed more fully in Part A of this Code.

The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client, a non-audit assurance client or a non-assurance client.

1.7 Examples of circumstances that may create self-interest threats for professional accountants in public practice include, but are not limited to:

- (a) A financial interest in a client where the performance of professional services may affect the value of that interest.**
- (b) A loan to or from an assurance client or any of its directors or officers where the performance of professional services may affect the value of that loan.**
- (c) Concern about the possibility of losing a recurring client.**
- (d) Potential employment with a client.**

1.8 Examples of circumstances that may create self-review threats include, but are not limited to:

- (a) The discovery of a significant error during a re-evaluation.**
- (b) Reporting on the operation of financial systems after being involved in their design or implementation.**
- (c) A member of the engagement team for an assurance client being, or having recently been, a director or officer of that client.**
- (d) A member of the engagement team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.**

- (e) Having prepared the original data used to generate records that are the subject matter of the engagement.**

1.9 Examples of circumstances that may create advocacy threats include, but are not limited to:

- (a) Promoting shares in a listed entity when that entity is an audit client.**
- (b) Acting as an advocate on behalf of an assurance client in resolving disputes with third parties.**

1.10 Examples of circumstances that may create familiarity threats include, but are not limited to:

- (a) A member of the engagement team having a close or immediate family relationship with a director or officer of the client.**
- (b) A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.**
- (c) A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.**
- (d) Accepting gifts or preferential treatment, unless the value is clearly insignificant.**

1.11 Examples of circumstances that may create intimidation threats include, but are not limited to:

(a) Being threatened with dismissal or replacement in relation to a client engagement.

(b) Being threatened with litigation.

(c) Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

1.12 Professional accountants may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, professional accountants should always be on the alert for such circumstances and threats.

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

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

In the work environment, the relevant safeguards will vary depending on the circumstances. In exercising their judgment in terms of how to best deal with an identified threat, professional accountants should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be unacceptable. Their consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

1.14 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 1.17 of Part A of this Code.

1.15 Firm-wide safeguards in the work environment (i.e., the firm) may include:

(a) Firm leadership that stresses the importance of compliance with the fundamental principles.

(b) Policies and procedures to implement and monitor quality control of client engagements.

(c) Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level.

(d) Internal policies and procedures requiring compliance with the fundamental principles.

(e) Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.

(f) Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.

(g) Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client.

- (h) Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- (i) Timely communication of a firm's policies and procedures, and any changes to them, to all partners and professional staff, including appropriate training and education.
- (j) Designating a member of senior management to be responsible for overseeing the adequate functioning of the safeguarding system.
- (k) A disciplinary mechanism to promote compliance with policies and procedures.
- (l) Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

1.16 Engagement-specific safeguards in the work environment may include:

- (a) Involving an additional professional accountant to review the work done or otherwise advise as necessary.
- (b) Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- (c) Rotating senior personnel.
- (d) Discussing ethical issues with those in charge of client governance.
- (e) Disclosing to those charged with client governance the nature of services provided and extent of fees charged.
- (f) Involving another firm to perform or re-perform part of the engagement.

1.17 Depending on the nature of the engagement, professional accountants in public practice may also be able to rely on safeguards that the client has implemented.

1.18 Safeguards within the client's systems and procedures may include:

- (a) When a client appoints a firm in public practice to perform an engagement, persons other than management ratify or approve the appointment.
- (b) The client has competent employees to make managerial decisions.
- (c) The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- (d) The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

1.19 Where professional accountants wish to rely on client-implemented safeguards, they should evaluate the safeguards they wish to rely on to determine whether those safeguards are sufficient and appropriate. This evaluation will vary depending on the circumstances and will be affected by matters such as the significance of the potential threat and the nature of the engagement.

SECTION 2

BEHAVIOUR IN PUBLIC PRACTICE

MARKETING PROFESSIONAL SERVICES

2.1 When professional accountants in public practice solicit new work through advertising or other forms of marketing, there may be potential threats to compliance with the fundamental principles. **For example, a self-interest threat to compliance with the principle of professional behavior might arise if services, achievements or products are marketed in a way that is inconsistent with that principle.**

2.2 Safeguards against such a threat include:

- (a) **Providing information fairly and in a manner that is not misleading.**
- (b) **Avoiding unsubstantiated or disparaging statements.**
- (c) **Complying with relevant laws, regulations and best practice.**
- (d) **Consultation with the relevant professional body.**

2.3 **Because no safeguards would be sufficient to eliminate the threats to compliance with the fundamental principles, professional accountants should not solicit clients or new work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means; and secure, either through the services of a person not qualified to be his partner or by means which are not open to a professional accountant, any work.**

2.4 **In order to eliminate potential threats to compliance with the fundamental principles, the safeguards may include:**

- (a) **Avoiding using any of the appointments or awards of national and local importance for personal professional advantage.**
- (b) **Listing in a directory in a way that could not reasonably be regarded as a promotional advertisement; and limiting the entries to name, address, telephone number, professional description and any other information necessary to enable the user of the directory to make contact with the person or organization to which the entry relates.**
- (c) **Stating name, professional qualifications and name of organization of author of books or articles or in a lecture, interview or a radio or television program on a professional subject without giving any information as to the services that the firm provides.**
- (d) **Giving the name of a professional accountant in any booklet or document issued in connection with training, seminar or workshop without giving undue prominence.**
- (e) **Not issuing booklet, technical information or other document bearing the name of a professional accountant for the assistance of clients except in response to an unsolicited request.**

(f) Communicating vacancies for staff to the public through any medium in which comparable staff vacancies normally appear but it should not contain any promotional element.

(g) Advertising or publicizing on behalf of clients primarily for staff without containing any promotional element.

(h) Issuing to a client or, in response to an unsolicited request, to a non-client:(a) a factual and objectively worded account of the services provided; and (b) a directory setting out names of partners, office addresses and names and addresses of associated firms and correspondents, without containing any promotional element.

(i) Using stationery or nameplate of an acceptable professional standard, complying with the requirements of the law as to names, use of professional descriptions and designatory letters, cities or countries where the practice is represented and logotype without mentioning the services provided by the practice.

(j) Using appropriate newspapers or magazines to inform the public of the establishment of a new practice, of changes in the composition of a partnership of professional accountants in public practice, or of any alteration in the address of a practice, without containing any promotional element.

CLIENT ACCEPTANCE

2.5 Before accepting a new client relationship, professional accountants should consider whether acceptance poses any threats to compliance with the fundamental principles. Potential threats to integrity may arise from, for example, questionable issues associated with the client (its owners, management and activities); and questionable issues associated with non-compliance of laws with regard to the appointment for the audit engagement. In such cases, the threats created would be so significant that no safeguard could reduce the threat to an acceptable level. Accordingly, professional accountants should ordinarily decline to enter into the client relationship.

2.6 Client issues that could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices. In such cases, the threats created would be so significant that no safeguard could reduce the threat to an acceptable level. Accordingly, professional accountants should ordinarily decline to enter into the client relationship.

2.7 The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level.

2.8 Appropriate safeguards might include obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.

2.9 Where it is not possible to reduce the threats to an acceptable level, professional accountants should ordinarily decline to enter into the client relationship.

2.10 Acceptance decisions should be periodically reviewed for recurring client relationships.

INDIVIDUAL SERVICE ON AN ENGAGEMENT

2.11 Professional accountants in public practice should consider whether there are threats to compliance with the fundamental principles resulting from having interests in, or relationships with, the client entity or its personnel. For example, a familiarity threat to objectivity may arise from family or close personal or business relationships.

2.12 Professional accountants should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards may include:

- (a) Withdrawing from the engagement team.
- (b) Supervisory procedures.
- (c) Terminating the financial or business relationship, giving rise to the threat.**
- (d) Discussing the issue with higher levels of management within the firm.
- (e) Discussing the issue with those responsible for the client's governance.

2.13 Professional accountants in public practice should agree to provide only those services that they are competent to perform. Before accepting a specific client engagement, professional accountants should consider whether acceptance poses any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care may arise if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

2.14 Professional accountants should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to reduce them to an acceptable level. Such safeguards may include:

- (a) Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- (b) Acquiring knowledge of relevant industries or subject matters.
- (c) Possessing or obtaining experience with relevant regulatory or reporting requirements.
- (d) Assigning sufficient staff with the necessary competencies.
- (e) Using experts where necessary.

(f) Agreeing on a realistic time frame for the performance of the engagement.

(g) Complying with quality control policies and procedures designed to provide a reasonable assurance that specific engagements are accepted only when they can be performed competently.

USE OF EXPERTS

2.15 Professional accountants should be in a position to competently perform whatever engagements they undertake. Where this is not the case, there is a clear threat to compliance with the fundamental principles. **For example, a self-interest threat to professional competence and due care may arise when professional accountants accept an engagement without having the necessary specialist knowledge for the competent performance of that engagement.**

2.16 Such a threat may be mitigated or reduced to an acceptable level by seeking advice or assistance from experts such as other professional accountants, lawyers, actuaries, engineers and valuers. Professional accountants should evaluate whether it is appropriate for them to rely on the advice or work of such experts, having regard to factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

GIFTS AND HOSPITALITY

2.17 Professional accountants may find themselves in situations where they, or immediate or close family members, are offered gifts and hospitality. Such offers ordinarily give rise to threats to compliance with the fundamental principles. **For example, self-interest threats to objectivity may arise from the temptation to accept gifts; intimidation threats to objectivity may result from the possibility of such offers being made public.**

2.18 The significance of such threats will depend on the nature, value and intent behind the offer. Where offers of gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider insignificant are made in an open manner, professional accountants may conclude that the offers are made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, they may generally conclude that there is no significant threat to compliance with the fundamental principles.

2.19 If evaluated threats are other than clearly insignificant, professional accountants should not accept such offers.

IMPERSONATION

2.20 Examples of circumstances that may give rise to threats to compliance with the fundamental principles include but are not limited to:

(a) Allowing any person to practice in his name as a chartered accountant unless such person is also a professional accountant and is in partnership with or employed by him;

(b) Reporting on any assurance engagement that has not been performed entirely under the personal supervision of himself, a member of his staff, another member of the Institute or his partner;

(c) Allowing a person not being a member of the Institute or a member not being his partner to sign on his behalf or on behalf of his firm, any report on any assurance engagement; and

(d) Doing under the guise or through the medium of a company or firm anything which he is not allowed to do as an individual. Such circumstances may give rise to threats to compliance with the fundamental principles. Accordingly, professional accountants should not allow such circumstances happening.

SECTION 3

CONFLICTS OF INTERESTS

3.1 Professional accountants should take reasonable steps to avoid circumstances that could pose a conflict of interests. Such circumstances may give rise to threats to compliance with the fundamental principles. For example, a self-interest threat to objectivity may arise when professional accountants compete directly with a client or have joint ventures or similar arrangements with major competitors of that client. A self-interest threat to objectivity may also arise when professional accountants perform services for clients whose interests are in conflict with each other in relation to the matter or transaction in question.

3.2 Professional accountants should evaluate the significance of threats. Evaluation includes considering, before accepting or continuing a new client relationship or specific engagement, whether they have any relationships with clients or third parties that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level.

3.3 Safeguards will ordinarily include professional accountants:

(a) Notifying all relevant parties that they are acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent that they may so act.

(b) Notifying all relevant parties that they have relationships with clients or third parties that could give rise to conflicts of interest.

Such safeguards may, however, be precluded in some circumstances due to the constraints of confidentiality.

3.4 Additional safeguards include:

(a) The use of separate engagement teams, with separate internal reporting lines.

(b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing).

(c) Clear guidelines for engagement personnel on issues of security and confidentiality.

(d) Regular review of the application of safeguards by a senior individual not involved with either client engagement.

(e) Policies and procedures for dealing with conflicts of interest.

3.5 Where a threat cannot be eliminated or reduced to an acceptable level through the application of safeguards, professional accountants should conclude that it is not appropriate to accept a specific engagement or that they should resign from one or more conflicting engagements.

3.6 Where professional accountants in public practice have requested consent from a client to act for another party in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, then they must not continue to act for the other party in the matter giving rise to the conflict of interest.

SECTION 4

CHANGES IN PROFESSIONAL APPOINTMENT

RECURRING WORK

4.1 A professional accountant who is asked to replace another professional accountant, or who is considering tendering for an engagement currently held by another professional accountant, should determine whether there are any professional or other reasons, such as circumstances that threaten compliance with the fundamental principles, for not accepting the engagement. For example, there may be a threat to professional competence and due care if a professional accountant accepts the engagement before knowing all the pertinent facts.

4.2 The significance of the threats should be evaluated. Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances behind the proposed change so that the professional accountant can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision as to whether to accept the appointment.

4.3 Existing accountants are also bound by confidentiality. The extent to which they can and should discuss the affairs of their clients with proposed accountants will depend on the nature of the engagement and on:

- (a) Whether the client's permission to do so has been obtained; or
- (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

4.4 In the absence of specific instructions by their clients, existing accountants should not ordinarily volunteer information about the clients' affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 5 of Part A of this Code.

4.5 If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level.

4.6 Such safeguards include:

- (a) Discussing the client's affairs fully and freely with the existing accountant;
- (b) Asking existing accountants to provide information on any facts or circumstances within their knowledge, that, in their opinion, the proposed accountants should be aware of before deciding whether or not to accept the engagement;**
- (c) When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted.

4.7 Professional accountants will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion with existing accountants. Once that permission

is obtained, existing accountants should comply with relevant legal and other regulations governing such requests. Where existing accountants provide information, they should do so honestly and unambiguously. If the proposed accountants are unable to communicate with the existing accountants, they should try to obtain information about any possible threats by other means.

4.8 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, professional accountants in public practice should, unless there is satisfaction as to necessary facts by other means, consider whether to decline the engagement.

OTHER WORK

4.9 Professional accountants may be asked to undertake work that is complementary or additional to the work of an existing accountant. Such circumstances may give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include **notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.**

SECTION 5

SECOND OPINIONS

5.1 Situations where professional accountants in public practice are asked to provide a written opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

5.2 When asked to provide such an opinion, professional accountants should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards will ordinarily include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.

5.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, professional accountants should not provide such opinion.

SECTION 6

FEES AND OTHER TYPES OF REMUNERATION

6.1 When entering into negotiations regarding professional and business relationships, professional accountants may quote whatever fee they deem to be appropriate. **The fact that one professional accountant may quote a fee lower than another is not in itself unethical unless that another professional accountant succeeds one professional accountant in an audit engagement.** Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, there may be a self-interest threat to professional competence and due care if the fee quoted is so low that it may be difficult to perform the engagement satisfactorily for that price.

6.2 The significance of such threats will depend on factors such as the level of fee quoted, the services to which it applies and the availability of comparison with other quotes. In view of these potential threats, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Safeguards which may be adopted include:

- (a) Making clients aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee;
- (b) Assigning appropriate time and qualified staff to the task; and
- (c) Not quoting fee lower than the minimum fee, if any, recommended by the respective Member Body of SAFA.**

6.3 Contingent fees are widely used for certain types of non-assurance engagements. They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. **For example, there may be a self-interest threat to objectivity when a contingent fee is agreed on but is not considered normal professional or business practice for the type of engagement in question. In such cases, the threats created would be so significant that no safeguard could reduce the threat to an acceptable level. Accordingly, professional accountants should ordinarily decline to enter into the client relationship unless a contingent fee is considered normal professional or business practice for the type of engagement in question; and is permitted by the respective Member Body of SAFA.**

6.4 The significance of threats referred to in Section 6.3 will depend on factors including:

- (a) The degree of objectivity required for the engagement.
- (b) The range of possible fee amounts.
- (c) The basis for determining the fee.
- (d) Whether the outcome or result of the transaction is to be reviewed by an independent third party.

The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards might include:

- (a) An advance written agreement with the client as to the basis of remuneration.
- (b) Disclosure of the work the professional accountants have done and the basis of remuneration for any document they have prepared in contemplation that a third party may (with their agreement) rely on it.
- (c) Quality control policies and procedures.
- (d) Review of the work done by an objective third party.

6.5 In certain circumstances, professional accountants may receive referral fees or commissions relating to their clients. For example, where they do not themselves provide the specific service required, they may receive a fee for referring a continuing client to another professional accountant in public practice or other expert. Professional accountants may receive commissions from third parties (e.g., software vendors) in connection with sales of goods or services to a client. Accepting such referral fees or commissions may give rise to self-interest threats to objectivity and professional competence and due care.

6.6 Professional accountants may also pay referral fees to obtain clients, for example, where the clients continue as clients of other professional accountants but require specialist services not offered by the existing accountants. The payment of such referral fees may also give rise to self-interest threats to objectivity and professional competence and due care.

6.7 Professional accountants should not pay referral fees or receive such fees or commissions.

6.8 Professional accountants may purchase all or part of an accounting practice with the proviso that payments will be made to individuals formerly engaged in the practice or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraph 6.5 – 6.7 above.

SECTION 7

CUSTODY OF CLIENT ASSETS

7.1 Professional accountants should assume custody of client monies or other assets only where permitted to do so by law and having regard to any additional legal duties imposed on professional accountants in public practice holding such assets.

7.2 The holding of client assets gives rise to threats to compliance with the fundamental principles for example there may be a self-interest threat to integrity or professional behavior arising from holding client assets. **To safeguard against such threats, professional accountants entrusted with money (or other assets) belonging to others should:**

(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 to any persons entitled to such accounting; and

(d) Comply with all relevant law and regulations relevant to the holding of and accounting for such assets.

7.3 In addition, professional accountants should be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were found to derive from illegal activities, such as money laundering. As part of client and engagement acceptance procedures for such services, professional accountants should make appropriate enquiries about the source of such assets and should consider their legal and regulatory obligations. They may also consider seeking legal advice. **If the professional accountants, after enquiries or legal advice, find that money or other assets belonging to others were derived from illegal activities, they should not hold such assets.**

SECTION 8

INDEPENDENCE

8.1 It is in the public interest and, therefore, required by this Code of Ethics, that members of assurance teams, firms and, when applicable, network firms be independent of assurance clients.

8.2 Assurance engagements are intended to enhance the credibility of information about a subject matter by evaluating whether the subject matter conforms in all material respects with suitable criteria. The ISAE issued by IASSB describes the objectives and elements of assurance engagements to provide either a high or a moderate level of assurance. The IASSB has also issued specific standards for certain assurance engagements. For example, ISAs as adopted by the respective Member Body of SAFA provide specific standards for audit (high level assurance) and review (moderate level assurance) of financial statements.

Paragraphs 8.3 through 8.6 are taken from the ISAE and describe the nature of an assurance engagement. These paragraphs are presented here only to describe the nature of an assurance engagement. To obtain a full understanding of the objectives and elements of an assurance engagement it is necessary to refer to the full text contained in the ISAE.

8.3 Whether a particular engagement is an assurance engagement will depend upon whether it exhibits all the following elements:

- (a) A three party relationship involving:
 - (i) A professional accountant;
 - (ii) A responsible party; and
 - (iii) An intended user;
- (b) A subject matter;
- (c) Suitable criteria;
- (d) An engagement process; and
- (e) A conclusion.

The responsible party and the intended user will often be from separate organizations but need not be. A responsible party and an intended user may both be within the same organization. For example, a governing body may seek assurance about information provided by a component of that organization. The relationship between the responsible party and the intended user needs to be viewed within the context of a specific engagement.

8.4 There is a broad range of engagements to provide a high or moderate level of assurance. Such engagements may include:

- (a) Engagements to report on a broad range of subject matters covering financial and non-financial information;
- (b) Attest and direct reporting engagements;
- (c) Engagements to report internally and externally; and

(d) Engagements in the private and public sector.

8.5 The subject matter of an assurance engagement may take many forms, such as the following:

(a) Data (for example, historical or prospective financial information, statistical information, performance indicators);

(b) Systems and processes (for example, internal controls); or

(c) Behavior (for example, corporate governance, compliance with regulation, human resource practices).

8.6 Not all engagements performed by professional accountants are assurance engagements. Other engagements frequently performed by professional accountants that are not assurance engagements include:

(a) Agreed-upon procedures;

(b) Compilation of financial or other information;

(c) Preparation of tax returns when no conclusion is expressed, and tax consulting;

(d) Management consulting; and

(e) Other advisory services.

8.7 This section provides a framework, built on principles, for identifying, evaluating and responding to threats to independence. The framework establishes principles that members of assurance teams, firms and network firms should use to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level. Judgment is needed to determine which safeguards are to be applied. Some safeguards may eliminate the threat while others may reduce the threat to an acceptable level. This section requires members of assurance teams, firms and network firms to apply the principles to the particular circumstances under consideration. The examples presented are intended to illustrate the application of the principles in this section and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it is not sufficient for a member of an assurance team, a firm or a network firm merely to comply with the examples presented, rather they should apply the principles in this section to the particular circumstances they face.

A COCEPTUAL APPROACH TO INDEPENDENCE

8.8 Independence requires:

(a) Independence of mind:

The state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, 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, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

8.9 The use of the word "independence" on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.

8.10 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

8.11 This section is based on such a conceptual approach, one that takes into account threats to independence, accepted safeguards and the public interest. Under this approach, firms and members of assurance teams have an obligation to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards. In addition to identifying and evaluating relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.

8.12 This section provides a framework of principles that members of assurance teams, firms and network firms should use to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised.

8.13 The principles in this section apply to all assurance engagements. The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or

reduce them to an acceptable level differ depending on the characteristics of the individual engagement: whether the assurance engagement is an audit engagement* or another type of engagement; and in the case of an assurance engagement that is not an audit engagement, the purpose, subject matter and intended users of the report. A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement and the threats to independence in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team.

8.14 Audit engagements provide assurance to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for audit clients, the members of the assurance team, the firm and network firms are required to be independent of the audit client. Similar considerations in the case of assurance engagements provided to non-audit assurance clients require the members of the assurance team and the firm to be independent of the non-audit assurance client. In the case of these engagements, consideration should be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.

8.15 In the case of an assurance report to a non-audit assurance client expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria by which the subject matter are to be evaluated. This knowledge and enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this section in evaluating the independence of members of the assurance team and their immediate and close family. Further, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

8.16 Accordingly:

(a) For assurance engagements provided to an audit client, the members of the assurance team, the firm and network firms are required to be independent of the client;

(b) For assurance engagements provided to clients that are not audit clients, when the report is not expressly restricted for use by identified users, the members of the assurance team and the firm are required to be independent of the client; and

(c) For assurance engagements provided to clients that are not audit clients, when the assurance report is expressly restricted for use by identified users, the members of the assurance team are required to be independent of the client. In addition, the firm should not have a material direct or indirect financial interest in the client.

8.17 The threats and safeguards identified in this section are generally discussed in the context of interests or relationships between the firm, network firms, a member of the assurance team and the assurance client. In the case of a listed audit client, the firm and any

network firms are required to consider the interests and relationships that involve that client's related entities. Ideally those entities and the interests and relationships should be identified in advance. For all other assurance clients, when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards.

8.18 The evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm, a network firm or a member of the assurance team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence. There may be occasions when the firm, a network firm or an individual inadvertently violates this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to an assurance client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

8.19 Throughout this section, reference is made to significant and clearly insignificant threats in the evaluation of independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential.

OBJECTIVE AND STRUCTURE OF THIS SECTION

8.20 The objective of this section is to assist firms and members of assurance teams in:

- (a) Identifying threats to independence;
- (b) Evaluating whether these threats are clearly insignificant; and
- (c) In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level. In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement.

8.21 This section outlines the threats to independence (paragraphs 8.28 through 8.33). It then analyzes safeguards capable of eliminating these threats or reducing them to an acceptable level (paragraphs 8.34 through 8.47). It concludes with some examples of how this conceptual approach to independence is to be applied to specific circumstances and relationships. The examples discuss threats to independence that may be created by specific circumstances and relationships (paragraphs 8.48 onwards). Professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level. In certain examples, the threats to independence are so significant the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement. In other examples, the threat can be eliminated or reduced to an acceptable level by the application of safeguards. The examples are not intended to be all-inclusive.

8.22 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be

documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

8.23 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities might include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the audit of listed entities. Consideration should be given to the application of the principles set out in this section in relation to the audit of listed entities to other audit clients that may be of significant public interest.

NATIONAL PERSPECTIVES

8.24 This section establishes a conceptual framework for independence requirements for assurance engagements that is the international standard on which national standards should be based. Accordingly, no member body or firm is allowed to apply less stringent standards than those stated in this section. When, however, member bodies or firms are prohibited from complying with certain parts of this section by law or regulation they should comply with all other parts of this section.

8.25 Certain examples in this section indicate how the principles are to be applied to listed entity audit engagements. When a member body chooses not to differentiate between listed entity audit engagements and other audit engagements, the examples that relate to listed entity audit engagements should be considered to apply to all audit engagements.

8.26 When a firm conducts an assurance engagement in accordance with the ISAE or with specific standards for assurance engagements issued by the IASSB such as an audit or review of financial statements in accordance with ISAs as adopted by the respective Member Body of SAFA, the members of the assurance team and the firm should comply with this section unless they are prohibited from complying with certain parts of this section by law or regulation. In such cases, the members of the assurance team and the firm should comply with all other parts of this section.

8.27 Some countries and cultures may have set out, either by legislation or common practice, different definitions of relationships from those used in this section. For example, some national legislators or regulators may have prescribed lists of individuals who should be regarded as close family that differ from the definition contained in this section. Firms, network firms and members of assurance teams should be aware of those differences and comply with the more stringent requirements.

THREATS TO INDEPENDENCE

8.28 Independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats.

8.29 “Self-Interest Threat” occurs when a firm or a member of the assurance team could benefit from a financial interest in, or other self-interest conflict with, an assurance client. **Examples of circumstances that may create this threat include, but are not limited to:**

- (a) A direct financial interest or material indirect financial interest in an assurance client;**
- (b) A loan or guarantee to or from an assurance client or any of its directors or officers;
- (c) Undue dependence on total fees from an assurance client;**
- (d) Concern about the possibility of losing the engagement;**
- (e) Having a close business relationship with an assurance client;**
- (f) Potential employment with an assurance client; and**
- (g) Contingent fees relating to assurance engagements.**

8.30 “Self-Review Threat” occurs when: any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement or when a member of the assurance team was previously a director or officer of the assurance client, or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement. **Examples of circumstances that may create this threat include, but are not limited to:**

- (a) A member of the assurance team being, or having recently been, a director or officer of the assurance client;**
- (b) A member of the assurance team being, or having recently been, an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement;
- (c) Performing services for an assurance client that directly affect the subject matter of the assurance engagement; and**
- (d) Preparation of original data used to generate financial statements or preparation of other records that are the subject matter of the assurance engagement.

8.31 “Advocacy Threat” occurs when a firm, or a member of the assurance team, promotes, or may be perceived to promote, an assurance client’s position or opinion to the point that objectivity may, or may be perceived to be, compromised. Such may be the case if a firm or a member of the assurance team were to subordinate their judgment to that of the client. **Examples of circumstances that may create this threat include, but are not limited to:**

- (a) Dealing in, or being a promoter of, shares or other securities in an assurance client; and
- (b) Acting as an advocate on behalf of an assurance client in litigation or in resolving disputes with third parties.**

8.32 “Familiarity Threat” occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a member of the assurance team becomes too sympathetic to the client’s interests. **Examples of circumstances that may create this threat include, but are not limited to:**

- (a) A member of the assurance team having an immediate family* member or close family member who is a director or officer of the assurance client;**

(b) A member of the assurance team having an immediate family member or close family member who, as an employee of the assurance client, is in a position to exert direct and significant influence over the subject matter of the assurance engagement;

(c) A former partner of the firm being a director, officer of the assurance client or an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement;

(d) Long association of a senior member of the assurance team with the assurance client; and

(e) Acceptance of gifts or hospitality, unless the value is clearly insignificant, from the assurance client, its directors, officers or employees.

8.33 “Intimidation Threat” occurs when a member of the assurance team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client. **Examples of circumstances that may create this threat include, but are not limited to:**

(a) Threat of replacement over a disagreement with the application of an accounting principle; and

(b) Pressure to reduce inappropriately the extent of work performed in order to reduce fees.

SAFEGUARDS

8.34 The firm and members of the assurance team have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats or reduce them to an acceptable level.

8.35 When threats are identified, other than those that are clearly insignificant, appropriate safeguards should be identified and applied to eliminate the threats or reduce them to an acceptable level. This decision should be documented. The nature of the safeguards to be applied will vary depending upon the circumstances. Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. The consideration will be affected by matters such as the significance of the threat, the nature of the assurance engagement, the intended users of the assurance report and the structure of the firm.

8.36 Safeguards fall into three broad categories:

- (a) Safeguards created by the profession, legislation or regulation;
- (b) Safeguards within the assurance client; and
- (c) Safeguards within the firm's own systems and procedures.

The firm and the members of the assurance team should select appropriate safeguards to eliminate or reduce threats to independence, other than those that are clearly insignificant, to an acceptable level.

8.37 Safeguards created by the profession, legislation or regulation, include the following:

- (a) Educational, training and experience requirements for entry into the profession;
- (b) Continuing education requirements;
- (c) Professional standards and monitoring and disciplinary processes;
- (d) External review of a firm's quality control system; and
- (e) Legislation governing the independence requirements of the firm.

8.38 Safeguards within the assurance client, include the following:

- (a) When the assurance client's management appoints the firm, persons other than management ratify or approve the appointment;
- (b) The assurance client has competent employees to make managerial decisions;
- (c) Policies and procedures that emphasize the assurance client's commitment to fair financial reporting;
- (d) Internal procedures that ensure objective choices in commissioning non-assurance engagements; and
- (e) A corporate governance structure, such as an audit committee, that provides appropriate oversight and communications regarding a firm's services.

8.39 Audit committees can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm is independent in carrying out its audit role. There should be regular communications between the firm and the audit committee (or other governance body if there is no audit committee) of listed entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence.

8.40 Firms should establish policies and procedures relating to independence communications with audit committees, or others charged with governance. In the case of the audit of listed entities, the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the audit client that in the firm's professional judgment may reasonably be thought to bear on independence. Matters to be communicated will vary in each circumstance and should be decided by the firm, but should generally address the relevant matters set out in this section.

8.41 Safeguards within the firm's own systems and procedures may include firm-wide safeguards such as the following:

- (a) Firm leadership that stresses the importance of independence and the expectation that members of assurance teams will act in the public interest;
- (b) Policies and procedures to implement and monitor quality control of assurance engagements;
- (c) Documented independence policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the identification and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level;
- (d) Internal policies and procedures to monitor compliance with firm policies and procedures as they relate to independence;
- (e) Policies and procedures that will enable the identification of interests or relationships between the firm or members of the assurance team and assurance clients;
- (f) Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single assurance client;
- (g) Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client;
- (h) Policies and procedures to prohibit individuals who are not members of the assurance team from influencing the outcome of the assurance engagement;
- (i) Timely communication of a firm's policies and procedures, and any changes thereto, to all partners and professional staff, including appropriate training and education thereon;
- (j) Designating a member of senior management as responsible for overseeing the adequate functioning of the safeguarding system;
- (k) Means of advising partners and professional staff of those assurance clients and related entities from which they must be independent;
- (l) A disciplinary mechanism to promote compliance with policies and procedures; and
- (m) Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them; this includes informing staff of the procedures open to them.

8.42 Safeguards within the firm's own systems and procedures may include engagement specific safeguards such as the following:

- (a) Involving an additional professional accountant to review the work done or otherwise advise as necessary. This individual could be someone from outside the firm or network firm, or someone within the firm or network firm who was not otherwise associated with the assurance team;
- (b) Consulting a third party, such as a committee of independent directors, a professional regulatory body or another professional accountant;
- (c) Rotation of senior personnel;
- (d) Discussing independence issues with the audit committee or others charged with governance;
- (e) Disclosing to the audit committee, or others charged with governance, the nature of services provided and extent of fees charged;
- (f) Policies and procedures to ensure members of the assurance team do not make, or assume responsibility for, management decisions for the assurance client;
- (g) Involving another firm to perform or re-perform part of the assurance engagement;
- (h) Involving another firm to re-perform the non-assurance service to the extent necessary to enable it to take responsibility for that service; and
- (i) Removing an individual from the assurance team, when that individual's financial interests or relationships create a threat to independence.

8.43 When the safeguards available, such as those described in paragraphs 8.37 through 8.42 above, are insufficient to eliminate the threats to independence or to reduce them to an acceptable level, or when a firm chooses not to eliminate the activities or interests creating the threat, the only course of action available will be the refusal to perform, or withdrawal from, the assurance engagement.

ENGAGEMENT PERIOD

8.44 The members of the assurance team and the firm should be independent of the assurance client during the period of the assurance engagement. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

8.45 In the case of an audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes an audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements, but prior to the acceptance of the audit engagement; or
- (b) Previous services provided to the audit client.

Similarly, in the case of an assurance engagement that is not an audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence.

8.46 If non-assurance services were provided to the audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the audit and those services would be prohibited during the period of the audit engagement, consideration should be given to the threats to independence, if any, arising from those services. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) Discussing independence issues related to the provision of the non-assurance services with those charged with governance of the client, such as the audit committee;
- (b) Obtaining the audit client's acknowledgement of responsibility for the results of the non-assurance services;
- (c) Precluding personnel who provided the non-assurance services from participating in the audit engagement; and
- (d) Engaging another firm to review the results of the non-assurance services or having another firm re-perform the non-assurance services to the extent necessary to enable it to take responsibility for those services.

8.47 Non-assurance services provided to a non-listed audit client will not impair the firm's independence when the client becomes a listed entity provided:

- (a) The previous non-assurance services were permissible under this section for non-listed audit clients;
- (b) The services will be terminated within a reasonable period of time of the client becoming a listed entity, if they are impermissible under this section for listed audit clients; and
- (c) The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous services or reduce them to an acceptable level.

The examples that discuss threats to independence that may be created by specific circumstances and relationships (refer to paragraph 8.21).

INTRODUCTION

8.48 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all-inclusive. In practice, the firm, network firms and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 8.35 through 8.40 can be applied to satisfactorily address the threats to independence. Paragraphs 8.1 through 8.47 of this section provide conceptual guidance to assist in this process.

8.49 Some of the examples deal with audit clients while others deal with assurance clients that are not audit clients. The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team, the firm and network firms to be independent of an audit client, and for the members of the assurance team and the firm to be independent of an assurance client that is not an audit client. The examples do not include assurance reports to a non-audit assurance client expressly restricted for use by identified users. **As stated in paragraph 8.15 for such engagements, members of the assurance team and their immediate and close family are required to be independent of the assurance client. Further, the firm should not have a material financial interest, direct or indirect, in the assurance client.**

FINANCIAL INTERESTS

8.50 A financial interest in an assurance client may create a self-interest threat. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, the materiality of the financial interest and the type of financial interest (direct or indirect).

8.51 When evaluating the type of financial interest, consideration should be given to the fact that financial interests range from those where the individual has no control over the investment vehicle or the financial interest held (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest (e.g., as a trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence, it is important to consider the degree of control or influence that can be exercised over the intermediary, the financial interest held, or its investment strategy. When control exists, the financial interest should be considered direct. Conversely, when the holder of the financial interest has no ability to exercise such control the financial interest should be considered indirect.

8.52 If a member of the assurance team, or their immediate family member, has a direct financial interest, or a material indirect financial interest, in the assurance client, the self-interest threat created would be so significant the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to:

(a) dispose of the direct financial interest prior to the individual becoming a member of the assurance team;

(b) dispose of the indirect financial interest in total or dispose of a sufficient amount of it so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team; or

(c) remove the member of the assurance team from the assurance engagement.

8.53 If a member of the assurance team, or their immediate family member receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat would be created. **The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level:**

(a) disposing of the financial interest at the earliest practical date; or

(b) removing the member of the assurance team from the assurance engagement.

During the period prior to disposal of the financial interest or the removal of the individual from the assurance team, consideration should be given to whether additional safeguards are necessary to reduce the threat to an acceptable level. Such safeguards might include:

(a) discussing the matter with those charged with governance, such as the audit committee; or

(b) involving an additional professional accountant to review the work done, or otherwise advise as necessary.

8.54 When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team and the close family member and the materiality of the financial interest. Once the significance of the threat has been evaluated, safeguards should be considered and applied as necessary. Such safeguards might include:

(a) the close family member disposing of all or a sufficient portion of the financial interest at the earliest practical date;

(b) discussing the matter with those charged with governance, such as the audit committee;

(c) involving an additional professional accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team with the close family relationship or otherwise advise as necessary; or

(d) removing the individual from the assurance engagement.

8.55 When a firm or a member of the assurance team holds a direct financial interest or a material indirect financial interest in the assurance client as a trustee, a self-interest threat may be created by the possible influence of the trust over the assurance client. Accordingly, such an interest should only be held when:

- (a) the member of the assurance team, an immediate family member of the member of the assurance team, and the firm are not beneficiaries of the trust;
- (b) the interest held by the trust in the assurance client is not material to the trust;
- (c) the trust is not able to exercise significant influence over the assurance client; and
- (d) the member of the assurance team or the firm does not have significant influence over any investment decision involving a financial interest in the assurance client.

8.56 Consideration should be given to whether a self-interest threat may be created by the financial interests of individuals outside of the assurance team and their immediate and close family members. Such individuals would include:

- (a) partners, and their immediate family members, who are not members of the assurance team;
- (b) partners and managerial employees who provide non-assurance services to the assurance client; and
- (c) individuals who have a close personal relationship with a member of the assurance team.

Whether the interests held by such individuals may create a self-interest threat will depend upon factors such as:

- (a) the firm's organisational, operating and reporting structure; and
- (b) the nature of the relationship between the individual and the member of the assurance team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) where appropriate, policies to restrict people from holding such interests;
- (b) discussing the matter with those charged with governance, such as the audit committee; or
- (c) involving an additional professional accountant who did not take part in the assurance engagement to review the work done or otherwise advise as necessary.

8.57 An inadvertent violation of this section as it relates to a financial interest in an assurance client would not impair the independence of the firm, the network firm or a member of the assurance team when:

- (a) the firm, and the network firm, has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;

(b) the firm, and the network firm, promptly notifies the professional that the financial interest should be disposed of; and

(c) the disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team.

8.58 When an inadvertent violation of this section relating to a financial interest in an assurance client has occurred, the firm should consider whether any safeguards should be applied. Such safeguards might include:

(a) involving an additional professional accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team; or

(b) excluding the individual from any substantive decision making concerning the assurance engagement.

8.59 If a firm, or a network firm, has a direct financial interest in an audit client of the firm, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.

8.60 If a firm or a network firm has a material indirect financial interest in an audit client of the firm, a self-interest threat is also created. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

8.61 If a firm or a network firm has a material financial interest in an entity that has a controlling interest in an audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

8.62 If the retirement benefits plan of a firm or network firm has a financial interest in an audit client, a self-interest threat may be created. Accordingly, the significance of any such threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

8.63 If other partners, including partners who do not perform assurance engagements, or their immediate family, in the office in which the lead engagement partner practices in connection with the audit hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. **Accordingly, such partners or their immediate family should not hold any such financial interests in such an audit client.**

8.64 The office in which the lead engagement partner practices in connection with the audit is not necessarily the office to which that partner is assigned. Accordingly, when the lead engagement partner is located in a different office from that of the other members of the assurance team, judgment should be used to determine in which office the partner practices in connection with that audit.

8.65 If other partners and managerial employees who provide non-assurance services to the audit client, except those whose involvement is clearly insignificant, or their immediate family, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their immediate family should not hold any such financial interests in such an audit client.

8.66 A financial interest in an audit client that is held by an immediate family member of (a) a partner located in the office in which the lead engagement partner practices in connection with the audit, or (b) a partner or managerial employee who provides non-assurance services to the audit client is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g., pension rights or share options) and, where necessary, appropriate safeguards are applied to reduce any threat to independence to an acceptable level.

8.67 A self-interest threat may be created if the firm, or the network firm, or a member of the assurance team has an interest in an entity and an audit client, or a director, officer or controlling owner thereof also has an investment in that entity. Independence is not compromised with respect to the audit client if the respective interests of the firm, the network firm, or member of the assurance team, and the audit client, or director, officer or controlling owner thereof are both immaterial and the audit client cannot exercise significant influence over the entity. **If an interest is material, to either the firm, the network firm or the audit client, and the audit client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the firm, the network firm, should either dispose of the interest or decline the audit engagement. Any member of the assurance team with such a material interest should either:**

(a) dispose of the interest;

(b) dispose of a sufficient amount of the interest so that the remaining interest is no longer material; or

(c) withdraw from the audit.

8.68 If a firm has a direct financial interest in an assurance client that is not an audit client the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.

8.69 If a firm has a material indirect financial interest in an assurance client that is not an audit client, a self-interest threat is also created. The only action appropriate to permit the firm to perform the engagement would be for the firm to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

8.70 If a firm has a material financial interest in an entity that has a controlling interest in an assurance client that is not an audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the firm to perform the engagement would be for the firm either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

8.71 When a restricted use report for an assurance engagement that is not an audit engagement is issued, exceptions to the provisions in paragraphs 8.52 through 8.56 and 8.68 through 8.70 are set out in 8.15.

LOANS AND GUARANTEES

8.72 A loan from, or a guarantee thereof by, an assurance client that is a bank or a similar institution, to the firm would not create a threat to independence provided the loan is made under normal lending procedures, terms and requirements and the loan is immaterial to both the firm and the assurance client. If the loan is material to the assurance client or the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant from outside the firm, or network firm, to review the work performed.

8.73 A loan from, or a guarantee thereof by, an assurance client that is a bank or a similar institution, to a member of the assurance team or their immediate family would not create a threat to independence provided the loan is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

8.74 Similarly, deposits made by, or brokerage accounts of, a firm or a member of the assurance team with an assurance client that is a bank, broker or similar institution would not create a threat to independence provided the deposit or account is held under normal commercial terms.

8.75 If the firm, or a member of the assurance team, makes a loan to an assurance client, that is not a bank or similar institution, or guarantees such an assurance client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the loan from, or the borrowings guaranteed by, an assurance client in total threat to an acceptable level. The only action appropriate to permit the firm to perform the engagement would be for the firm or a member of the assurance team to arrange to clear the loan made to, or guarantees given against the borrowings by, an assurance client in total or to arrange to clear a sufficient amount of it so that the remaining amount is no longer material.

8.76 Similarly, if the firm or a member of the assurance team accepts a loan from, or has borrowings guaranteed by, an assurance client that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the firm to perform the engagement would be for the firm or a member of the assurance team, to dispose of the loan from, or the borrowings guaranteed by, an assurance client in total.

8.77 The examples in paragraphs 8.72 through 8.76 relate to loans and guarantees between the firm and an assurance client. In the case of an audit engagement, the provisions should be applied to the firm, all network firms and the audit client.

CLOSE BUSINESS RELATIONSHIPS WITH THE ASSURANCE CLIENTS

8.78 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, or between the firm, a network firm and an audit client, will involve a commercial or common financial interest and may create self-interest and intimidation threats. The following are examples of such relationships:

(a) having a material financial interest in a joint venture with the assurance client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client;

(b) arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties; and

(c) distribution or marketing arrangements under which the firm acts as a distributor or marketer of the assurance client's products or services, or the assurance client acts as the distributor or marketer of the products or services of the firm.

In the case of an audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm, the network firm and the audit client, no safeguards could reduce the threat to an acceptable level. In the case of an assurance client that is not an audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm and the assurance client, no safeguards could reduce the threat to an acceptable level. **Consequently, in both these circumstances the only possible courses of action are to:**

(a) terminate the business relationship;

(b) reduce the magnitude of the relationship so that the financial interest is immaterial and the relationship is clearly insignificant; or

(c) refuse to perform the assurance engagement.

Unless any such financial interest is immaterial and the relationship is clearly insignificant to the member of the assurance team, the only appropriate safeguard would be to remove the individual from the assurance team.

8.79 In the case of an audit client, business relationships involving an interest held by the firm, a network firm or a member of the assurance team or their immediate family in a closely held entity when the audit client or a director or officer of the audit client, or any group thereof, also has an interest in that entity, do not create threats to independence provided:

(a) the relationship is clearly insignificant to the firm, the network firm and the audit client;

(b) the interest held is immaterial to the investor, or group of investors; and

(c) the interest does not give the investor, or group of investors, the ability to control the closely held entity.

8.80 The purchase of goods and services from an assurance client by the firm (or from an audit client by a network firm) or a member of the assurance team would not generally create a threat to independence providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

(a) eliminating or reducing the magnitude of the transaction;

(b) removing the individual from the assurance team; or

(c) discussing the issue with those charged with governance, such as the audit committee.

FAMILY AND PERSONAL RELATIONSHIPS

8.81 Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on their role, of the assurance client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement, the closeness of the relationship and the role of the family member or other individual within the assurance client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

8.82 When an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement. **For example, in the case of an audit of financial statements, if the spouse of a member of the assurance team is an employee in a position to exert direct and significant influence on the preparation of the audit client's accounting records or financial statements, the threat to independence could only be reduced to an acceptable level by removing the individual from the assurance team.**

8.83 When a close family member of a member of the assurance team is a director, an officer, or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, threats to independence may be created. The significance of the threats will depend on factors such as:

- (a) the position the close family member holds with the client; and
- (b) the role of the professional on the assurance team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) removing the individual from the assurance team;**
- (b) where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member; or
- (c) policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

8.84 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family member of a member of the assurance team has a close relationship with the member of the assurance team and is a director, an officer or an employee of the assurance client in a position to exert direct and

significant influence over the subject matter of the assurance engagement. Therefore, members of the assurance team are responsible for identifying any such persons and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the assurance client.

8.85 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner or employee of the firm who is not a member of the assurance team and a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement. Therefore partners and employees of the firm are responsible for identifying any such relationships and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the firm professional with the assurance team, the position held within the firm, and the role of the individual within the assurance client.

8.86 An inadvertent violation of this section as it relates to family and personal relationships would not impair the independence of a firm or a member of the assurance team when:

- (a) the firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence;
- (b) either the responsibilities of the assurance team are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the firm promptly removes the professional from the assurance engagement; and
- (c) additional care is given to reviewing the work of the professional.

8.87 When an inadvertent violation of this section relating to family and personal relationships has occurred, the firm should consider whether any safeguards should be applied. Such safeguards might include:

- (a) involving an additional professional accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team; or
- (b) excluding the individual from any substantive decision-making concerning the assurance engagement.

EMPLOYMENTS WITH ASSURANCE CLIENTS

8.88 A firm or a member of the assurance team's independence may be threatened if a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement has been a member of the assurance team or partner of the firm. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former firm. Similarly, a member of the assurance team's independence may be threatened when an individual participates in the

assurance engagement knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future.

8.89 If a member of the assurance team, partner or former partner of the firm has joined the assurance client, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- (a) the position the individual has taken at the assurance client;
- (b) the amount of any involvement the individual will have with the assurance team;
- (c) the length of time that has passed since the individual was a member of the assurance team or firm; and
- (d) the former position of the individual within the assurance team or firm.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) considering the appropriateness or necessity of modifying the assurance plan for the assurance engagement;
- (b) assigning an assurance team to the subsequent assurance engagement that is of sufficient experience in relation to the individual who has joined the assurance client;
- (c) involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary; or
- (d) quality control review of the assurance engagement.

In all cases, all of the following safeguards are necessary to reduce the threat to an acceptable level:

- (a) the individual concerned is not entitled to any benefits or payments from the firm unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's independence; and
- (b) the individual does not continue to participate or appear to participate in the firm's business or professional activities.

8.90 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- (a) policies and procedures to require the individual to notify the firm when entering serious employment negotiations with the assurance client; and
- (b) removal of the individual from the assurance engagement.

In addition, consideration should be given to performing an independent review of any significant judgments made by that individual while on the engagement.

8.91 To have a former officer, director or employee of the assurance client serve as a member of the assurance team may create self-interest, self-review and familiarity threats. This would be particularly true when a member of the assurance team has to report on, for example, subject matter he or she had prepared or elements of the financial statements he or she had valued while with the assurance client.

8.92 If, during the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team.

8.93 If, prior to the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, this may create self-interest, self-review and familiarity threats. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the assurance client, is to be evaluated in the current period as part of the current assurance engagement. The significance of the threats will depend upon factors such as:

- (a) the position the individual held with the assurance client;
- (b) the length of time that has passed since the individual left the assurance client; and
- (c) the role the individual plays on the assurance team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) involving an additional professional accountant to review the work done by the individual as part of the assurance team or otherwise advise as necessary; or
- (b) discussing the issue with those charged with governance, such as the audit committee.

SERVING AS A DIRECTOR OR AN OFFICER OF THE BOARD OF THE ASSURANCE CLIENTS

8.94 If a partner or employee of the firm serves as an officer or as a director on the board of an assurance client, the self-review and self-interest threats created would be so significant that no safeguard could reduce the threats to an acceptable level. In the case of an audit engagement, if a partner or employee of a network firm were to serve as an officer or as a director on the board of an audit client, the threats created would be so significant that no safeguard could reduce the threats to an acceptable level. Consequently, if such an individual were to accept such a position the only course of action is to refuse to perform, or to withdraw from the assurance engagement.

8.95 The position of the Company Secretary has different implications in different jurisdictions. The duties may 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. Generally this position is seen to imply a close degree of association with the entity and may create self-review and advocacy threats.

8.96 If a partner or employee of the firm or a network firm serves as Company Secretary for an audit client the self-review and advocacy threats created would generally be so significant, no safeguard could reduce the threat to an acceptable level. **When the practice is specifically permitted under local law, professional rules or practice, the duties and functions undertaken should be limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns.**

8.97 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters is generally not perceived to impair independence, provided client management makes all relevant decisions.

LONG ASSOCIATION OF THE SENIOR PERSONNEL WITH THE ASSURANCE CLIENTS

GENERAL PROVISIONS

8.98 Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. The significance of the threat will depend upon factors such as:

- (a) the length of time that the individual has been a member of the assurance team;
- (b) the role of the individual on the assurance team;
- (c) the structure of the firm; and
- (d) the nature of the assurance engagement.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied to reduce the threat to an acceptable level. Such safeguards might include:

- (a) rotating the senior personnel of the assurance team;**
- (b) involving an additional professional accountant who was not a member of the assurance team to review the work done by the senior personnel or otherwise advise as necessary; or
- (c) independent internal quality reviews.

AUDIT CLIENTS THAT ARE LISTED ENTITIES

8.98 Using the same lead engagement partner on an audit over a prolonged period may create a familiarity threat. This threat is particularly relevant in the context of the audit of listed entities and safeguards should be applied in such situations to reduce such threat to an acceptable level. **Accordingly for the audit of listed entities:**

- (a) the lead engagement partner should be rotated after a pre-defined period, normally no more than seven years; and**

(b) a partner rotating after a pre-defined period should not participate in the assurance engagement until a further period of time, normally two years, has elapsed.

8.100 When an audit client becomes a listed entity, the length of time the lead engagement partner has served the audit client in that capacity should be considered in determining when the partner should be rotated. However, the partner may continue to serve as the lead engagement partner for two additional years before rotating off the engagement.

8.101 While the lead engagement partner should be rotated after such a pre-defined period, some degree of flexibility over timing of rotation may be necessary in certain circumstances. Examples of such circumstances include:

(a) situations when the lead engagement partner's continuity is especially important to the audit client, for example, when there will be major changes to the audit client's structure that would otherwise coincide with the rotation of the lead engagement partner; and

(b) situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard.

In all such circumstances when the lead engagement partner is not rotated after such a pre-defined period equivalent safeguards should be applied to reduce any threats to an acceptable level.

8.102 When a firm has only a few audit partners with the necessary knowledge and experience to serve as lead engagement partner on an audit client that is a listed entity, rotation of the lead partner may not be an appropriate safeguard. In these circumstances the firm should apply other safeguards to reduce the threat to an acceptable level. Such safeguards would include involving an additional professional accountant who was not otherwise associated with the assurance team to review the work done or otherwise advise as necessary. This individual could be someone from outside the firm or someone within the firm who was not otherwise associated with the assurance team.

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

8.103 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Assurance clients value the benefits that derive from having these firms, who have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such non-assurance services will often result in the assurance team obtaining information regarding the assurance client's business and operations that is helpful in relation to the assurance engagement. The greater the knowledge of the assurance client's business, the better the assurance team will understand the assurance client's procedures and controls, and the business and financial risks that it faces. The provision of non-assurance services may, however, create threats to the independence of the firm, a network firm or the members of the assurance team, particularly with respect to perceived threats to independence. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level.

8.104 The following activities would generally create self-interest or self-review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level:

- (a) authorising, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so;
- (b) determining which recommendation of the firm should be implemented; and
- (c) reporting, in a management role, to those charged with governance.

8.105 The examples set out in paragraphs 8.163 through 8.202 are addressed in the context of the provision of non-assurance services to an assurance client. The potential threats to independence will most frequently arise when a non-assurance service is provided to an audit client. The financial statements of an entity provide financial information about a broad range of transactions and events that have affected the entity. The subject matter of other assurance services, however, may be limited in nature. Threats to independence, however, may also arise when a firm provides a non-assurance service related to the subject matter of a non-audit assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter of the non-audit assurance engagement, whether any self-review threats are created and whether any threats to independence could be reduced to an acceptable level by application of safeguards, or whether the non-assurance engagement should be declined. When the non-assurance service is not related to the subject matter of the non-audit assurance engagement, the threats to independence will generally be clearly insignificant.

8.106 The following activities may also create self-review or self-interest threats:

- (a) having custody of an assurance client's assets;
- (b) supervising assurance client employees in the performance of their normal recurring activities; and
- (c) preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records and customer orders).

The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- (a) making arrangements so that personnel providing such services do not participate in the assurance engagement;
- (b) involving an additional professional accountant to advise on the potential impact of the activities on the independence of the firm and the assurance team.

8.107 New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it impossible to draw up an all-inclusive list of all situations when providing non-assurance services to an assurance client might create threats to independence and of the different safeguards that might eliminate these threats or reduce them to an acceptable level. In general, however, a firm may provide services beyond the assurance engagement provided any threats to independence have been reduced to an acceptable level.

8.108 The following safeguards may be particularly relevant in reducing to an acceptable level threats created by the provision of non-assurance services to assurance clients:

- (a) policies and procedures to prohibit professional staff from making management decisions for the assurance client, or assuming responsibility for such decisions;
- (b) discussing independence issues related to the provision of non-assurance services with those charged with governance, such as the audit committee;
- (c) policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm;
- (d) involving an additional professional accountant to advise on the potential impact of the non-assurance engagement on the independence of the member of the assurance team and the firm;
- (e) involving an additional professional accountant outside of the firm to provide assurance on a discrete aspect of the assurance engagement;
- (f) obtaining the assurance client's acknowledgement of responsibility for the results of the work performed by the firm;
- (g) disclosing to those charged with governance, such as the audit committee, the nature and extent of fees charged; or
- (h) making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement.

8.109 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, consideration should be given to whether the provision of such a service would create a threat to independence. In situations when a threat created is other than clearly insignificant, the non-assurance engagement should be declined unless appropriate safeguards can be applied to eliminate the threat or reduce it to an acceptable level.

8.110 The provision of certain non-assurance services to audit clients may create threats to independence so significant that no safeguard could eliminate the threat or reduce it to an acceptable level. However, the provision of such services to a related entity, division or discrete financial statement item of such clients may be permissible when any threats to the firm's independence have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.

PREPARING ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

8.111 Assisting an audit client in matters such as preparing accounting records or financial statements may create a self-review threat when the financial statements are subsequently audited by the firm.

8.112 It is the responsibility of client management to ensure that accounting records are kept and financial statements are prepared, although they may request the firm to provide assistance. **If firm, or network firm, personnel providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Consequently, personnel should not make such decisions. Examples of such managerial decisions include the following:**

(a) determining or changing journal entries, or the classifications for accounts or transactions or other accounting records without obtaining the approval of the audit client;

(b) authorising or approving transactions; and

(c) preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data.

8.113 The audit process involves extensive dialogue between the firm and management of the audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for audit clients are an appropriate means to promote the fair presentation of the financial statements. The provision of such advice does not generally threaten the firm's independence. Similarly, the audit process may involve assisting an audit client in resolving account reconciliation problems, analysing and accumulating information for regulatory reporting, assisting in the preparation of consolidated financial statements (including the translation of local statutory accounts to comply with group accounting policies and the transition to a different reporting framework such as International Accounting Standards), drafting disclosure items, proposing adjusting journal entries and providing assistance and advice in the preparation of local statutory accounts of subsidiary entities.

These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

GENERAL PROVISIONS

8.114 The examples in paragraphs 8.115 through 8.118 indicate that self-review threats may be created if the firm is involved in the preparation of accounting records or financial statements and those financial statements are subsequently the subject matter of an audit engagement of the firm. This notion may be equally applicable in situations when the subject matter of the assurance engagement is not financial statements. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this prospective financial information. Consequently, the firm should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat is other than clearly insignificant safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

AUDIT CLIENTS THAT ARE NOT LISTED ENTITIES

8.115 The firm, or a network firm, may provide an audit client that is not a listed entity with accounting and bookkeeping services, including payroll services, of a routine or mechanical nature, provided any self-review threat created is reduced to an acceptable level. Examples of such services include:

(a) recording transactions for which the audit client has determined or approved the appropriate account classification;

(b) posting coded transactions to the audit client's general ledger;

- (c) preparing financial statements based on information in the trial balance; and
- (d) posting audit client approved entries to the trial balance.

The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) making arrangements so such services are not performed by a member of the assurance team;
- (b) implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client;
- (c) requiring the source data for the accounting entries to be originated by the audit client;
- (d) requiring the underlying assumptions to be originated and approved by the audit client; or
- (e) obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.

AUDIT CLIENTS THAT ARE LISTED ENTITIES

8.116 The provision of accounting and bookkeeping services, including payroll services and the preparation of financial statements or financial information which forms the basis of the financial statements on which the audit report is provided, on behalf of an audit client that is a listed entity, may impair the independence of the firm or network firm, or at least give the appearance of impairing independence. Accordingly, no safeguard other than the prohibition of such services, except in emergency situations and when the services fall within the statutory audit mandate, could reduce the threat created to an acceptable level. **Therefore, a firm or a network firm should not, with the limited exceptions below, provide such services to listed entities, which are audit clients.**

8.117 The provision of accounting and bookkeeping services of a routine or mechanical nature to divisions or subsidiaries of listed audit clients would not be seen as impairing independence with respect to the audit client provided that the following conditions are met:

- (a) the services do not involve the exercise of judgment;
- (b) the divisions or subsidiaries for which the service is provided are collectively immaterial to the audit client, or the services provided are collectively immaterial to the division or subsidiary; and
- (c) the fees to the firm, or network firm, from such services are collectively clearly insignificant.

If such services are provided, all of the following safeguards should be applied:

- (a) the firm, or network firm, should not assume any managerial role nor make any managerial decisions;
- (b) the listed audit client should accept responsibility for the results of the work; and

(c) personnel providing the services should not participate in the audit.

EMERGENCY SITUATIONS

8.118 The provision of accounting and bookkeeping services to audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements, would not be considered to pose an unacceptable threat to independence provided:

(a) the firm, or network firm, does not assume any managerial role or make any managerial decisions;

(b) the audit client accepts responsibility for the results of the work; and

(c) personnel providing the services are not members of the assurance team.

VALUATION SERVICES

8.119 A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

8.120 A self-review threat may be created when a firm or network firms perform a valuation for an audit client that is to be incorporated into the client's financial statements.

8.121 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such valuation services should not be provided or, alternatively, the only course of action would be to withdraw from the audit engagement.

8.122 Performing valuation services that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may create a self-review threat that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include:

(a) involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary;

(b) confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;

(c) obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and

(d) making arrangements so that personnel providing such services do not participate in the audit engagement.

In determining whether the above safeguards would be effective, consideration should be given to the following matters:

- (a) the extent of the audit client's knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment;
- (b) the degree to which established methodologies and professional guidelines are applied when performing a particular valuation service;
- (c) for valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned;
- (d) the reliability and extent of the underlying data;
- (e) the degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved; and
- (f) the extent and clarity of the disclosures in the financial statements.

8.123 When the firm performs a valuation that forms part of the subject matter of an assurance engagement that is not an audit engagement, the firm should consider any self-review threats. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

PROVISION OF TAXATION SERVICES TO AUDIT CLIENTS

8.124 In many jurisdictions, the firm may be asked to provide taxation services to an audit client. Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.

PROVISION OF INTERNAL AUDIT SERVICES TO AUDIT CLIENTS

8.125 A self-review threat may be created when a firm, or network firm, provides internal audit services to an audit client. Internal audit services may comprise an extension of the firm's audit service beyond requirements of ISAs as adopted by the respective Member Body of SAFA, assistance in the performance of a client's internal audit activities or outsourcing of the activities. In evaluating any threats to independence, the nature of the service will need to be considered. For this purpose, internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.

8.126 Services involving an extension of the procedures required to conduct an audit in accordance with ISAs as adopted by the respective Member Body of SAFA would not be considered to impair independence with respect to an audit client provided that the firm's or network firm's personnel do not act or appear to act in a capacity equivalent to a member of audit client management.

8.127 When the firm, or a network firm, provides assistance in the performance of a client's internal audit activities or undertakes the outsourcing of some of the activities, any self-review threat created may be reduced to an acceptable level by ensuring that there is a clear separation between the management and control of the internal audit by audit client management and the internal audit activities themselves.

8.128 Performing a significant portion of the audit client's internal audit activities may create a self-review threat and a firm, or network firm, should consider the threats and proceed with caution before taking on such activities. Appropriate safeguards should be put in place and the firm, or network firm, should, in particular, ensure that the audit client acknowledges its responsibilities for establishing, maintaining and monitoring the system of internal controls.

8.129 Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:

- (a) The audit client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;
- (b) The audit client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
- (c) The audit client, the audit committee or supervisory body approves the scope, risk and frequency of internal audit work;
- (d) The audit client is responsible for evaluating and determining which recommendations of the firm should be implemented;
- (e) The audit client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining and acting on reports from the firm; and
- (f) The findings and recommendations resulting from the internal audit activities are reported appropriately to the audit committee or supervisory body.

8.130 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the audit engagement and with different reporting lines within the firm.

PROVISION OF IT SYSTEM SERVICES TO AUDIT CLIENTS

8.131 The provision of services by a firm or network firm to an audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may create a self-review threat.

8.132 The self-review threat is likely to be too significant to allow the provision of such services to an audit client unless appropriate safeguards are put in place ensuring that:

- (a) The audit client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The audit client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system;
- (c) The audit client makes all management decisions with respect to the design and implementation process;

(d) The audit client evaluates the adequacy and results of the design and implementation of the system; and

(e) The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

8.133 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the audit engagement and with different reporting lines within the firm.

8.134 The provision of services by a firm or network firm to an audit client which involve either the design or the implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may also create a self-review threat. The significance of the threat, if any, should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

8.135 The provision of services in connection with the assessment, design and implementation of internal accounting controls and risk management controls are not considered to create a threat to independence provided that firm or network firm personnel do not perform management functions.

TEMPORARY STAFF ASSIGNMENTS TO AUDIT CLIENTS

8.136 The lending of staff by a firm, or network firm, to an audit client may create a self-review threat when the individual is in a position to influence the preparation of a client's accounts or financial statements. In practice, such assistance may be given (particularly in emergency situations) but only on the understanding that the firm's or network firm's personnel will not be involved in:

(a) Making management decisions;

(b) Approving or signing agreements or other similar documents; or

(c) Exercising discretionary authority to commit the client.

Each situation should be carefully analyzed to identify whether any threats are created and whether appropriate safeguards should be implemented. Safeguards that should be applied in all circumstances to reduce any threats to an acceptable level include:

(a) The staff providing the assistance should not be given audit responsibility for any function or activity that they performed or supervised during their temporary staff assignment; and

(b) The audit client should acknowledge its responsibility for directing and supervising the activities of firm, or network firm, personnel.

PROVISION OF LITIGATION SUPPORT SERVICES TO AUDIT CLIENTS

8.137 Litigation support services may include such activities as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.

8.138 A self-review threat may be created when the litigation support services provided to an audit client include the estimation of the possible outcome and thereby affects the amounts or disclosures to be reflected in the financial statements. The significance of any threat created will depend upon factors such as:

- (a) The materiality of the amounts involved;
- (b) The degree of subjectivity inherent in the matter concerned; and
- (c) The nature of the engagement.

The firm, or network firm, should evaluate the significance of any threat created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- (a) Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client;
- (b) Using professionals who are not members of the assurance team to perform the service;
or
- (c) The involvement of others, such as independent experts.

8.139 If the role undertaken by the firm or network firm involved making managerial decisions on behalf of the audit client, the threats created could not be reduced to an acceptable level by the application of any safeguard. Therefore, the firm or network firm should not perform this type of service for an audit client.

PROVISION OF LEGAL SERVICES TO AUDIT CLIENTS

8.140 Legal services are defined as any services for which the person providing the services must either be admitted to practice before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law. Legal services encompass a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition advice and support and the provision of assistance to clients' internal legal departments. The provision of legal services by a firm, or network firm, to an entity that is an audit client may create both self-review and advocacy threats.

8.141 Threats to independence need to be considered depending on the nature of the service to be provided, whether the service provider is separate from the assurance team and the materiality of any matter in relation to the entities' financial statements. The safeguards set out in paragraph 8.160 may be appropriate in reducing any threats to independence to an acceptable level. In circumstances when the threat to independence cannot be reduced to an acceptable level the only available action is to decline to provide such services or withdraw from the audit engagement.

8.142 The provision of legal services to an audit client which involve matters that would not be expected to have a material effect on the financial statements are not considered to create an unacceptable threat to independence.

8.143 There is a distinction between advocacy and advice. Legal services to support an audit client in the execution of a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Such a service would not generally impair independence, provided that:

- (a) Members of the assurance team are not involved in providing the service; and
- (b) In relation to the advice provided, the audit client makes the ultimate decision or, in relation to the transactions, the service involves the execution of what has been decided by the audit client.

8.144 Acting for an audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the audit client would create advocacy and self-review threats so significant no safeguard could reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client.

8.145 When a firm is asked to act in an advocacy role for an audit client in the resolution of a dispute or litigation in circumstances when the amounts involved are not material to the financial statements of the audit client, the firm should evaluate the significance of any advocacy and self-review threats created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

(a) Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client; or

(b) Using professionals who are not members of the assurance team to perform the service.

8.146 The appointment of a partner or an employee of the firm or network firm as General Counsel for legal affairs to an audit client would create self-review and advocacy threats that are so significant no safeguards could reduce the threats to an acceptable level. **The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company and consequently, no member of the firm or network firm should accept such an appointment for an audit client.**

RECRUITING SENIOR MANAGEMENT

8.147 The recruitment of senior management for an assurance client, such as those in a position to affect the subject of the assurance engagement, may create current or future self-interest, familiarity and intimidation threats. The significance of the threat will depend upon factors such as:

(a) The role of the person to be recruited; and

(b) The nature of the assistance sought.

The firm could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the assurance client. The significance of the threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. **In all cases, the firm should not make management decisions and the decision as to whom to hire should be left to the client.**

CORPORATE FINANCE AND SIMILAR ACTIVITIES

8.148 The provision of corporate finance services, advice or assistance to an assurance client may create advocacy and self-review threats. In the case of certain corporate finance services, the independence threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. **For example, promoting, dealing in, or underwriting of an assurance client's shares is not compatible with providing assurance services.** Moreover, committing the assurance client to the terms of a transaction or consummating a transaction on behalf of the client would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level. **In the case of an audit client, the provision of those corporate finance services referred to above by a firm or a network firm would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level. Accordingly, no firm or network firm should provide corporate finance and similar activities to an assurance client.**

8.149 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include:

- (a) Policies and procedures to prohibit individuals assisting the assurance client from making managerial decisions on behalf of the client;
- (b) Using professionals who are not members of the assurance team to provide the services; and
- (c) Ensuring the firm does not commit the assurance client to the terms of any transaction or consummate a transaction on behalf of the client.

FEES AND PRICING

FEES-RELATIVE SIZE

8.150 When the total fees generated by an assurance client represent a large proportion of a firm's total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat. The significance of the threat will depend upon factors such as:

- (a) The structure of the firm; and
- (b) Whether the firm is well established or newly created.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) Discussing the extent and nature of fees charged with the audit committee, or others charged with governance;

(b) Taking steps to reduce dependency on the client;

- (c) External quality control reviews; and
- (d) Consulting a third party, such as a professional regulatory body or another professional accountant.

8.151 A self-interest threat may also be created when the fees generated by the assurance client represent a large proportion of the revenue of an individual partner. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- (a) Policies and procedures to monitor and implement quality control of assurance engagements; and

(b) Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary.

FEES-OVERDUE

8.152 A self-interest threat may be created if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report for the following year. **Generally the payment of such fees should be required before the report is issued.** The following safeguards may be applicable:

(a) Discussing the level of outstanding fees with the audit committee, or others charged with governance; and

(b) Involving an additional professional accountant who did not take part in the assurance engagement to provide advice or review the work performed. The firm should also consider whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be reappointed.

PRICING

8.153 **When a firm obtains an assurance engagement at a lower fee level than that charged by the predecessor firm, the self-interest threats to independence couldn't be reduced to an acceptable level by the application of any safeguard; accordingly, a firm should not accept an assurance engagement at a lower fee level than that charged by the predecessor firm.**

CONTINGENT FEES

8.154 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.

8.155 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. **Accordingly, a firm should not enter into any fee arrangement for an assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement.**

8.156 A contingent fee charged by a firm in respect of a non-assurance service provided to an assurance client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was agreed to, or contemplated, during an assurance engagement and was contingent on the result of that assurance engagement, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, the only acceptable action is not to accept such arrangements. For other types of contingent fee arrangements, the significance of the threats created will depend on factors such as:

(a) The range of possible fee amounts;

(b) The degree of variability;

(c) The basis on which the fee is to be determined;

- (d) Whether the outcome or result of the transaction is to be reviewed by an independent third party; and
- (e) The effect of the event or transaction on the assurance engagement.

The significance of the threats should be evaluated and, if the threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threats to an acceptable level. Such safeguards might include:

- (a) Disclosing to the audit committee, or others charged with governance, the extent of nature and extent of fees charged;
- (b) Review or determination of the final fee by an unrelated third party; or
- (c) Quality and control policies and procedures.

GIFTS AND HOSPITALITY

8.157 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. When a firm or a member of the assurance team accepts gifts or hospitality, unless the value is clearly insignificant, the threats to independence cannot be reduced to an acceptable level by the application of any safeguard. **Consequently, a firm or a member of the assurance team should not accept such gifts or hospitality.**

ACTUAL OR THREATENED LITIGATION

8.158 When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The firm and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- (a) The materiality of the litigation;
- (b) The nature of the assurance engagement; and
- (c) Whether the litigation relates to a prior assurance engagement.

Once the significance of the threat has been evaluated the following safeguards should be applied, if necessary, to reduce the threats to an acceptable level:

- (a) Disclosing to the audit committee, or others charged with governance, the extent and nature of the litigation;
- (b) If the litigation involves a member of the assurance team, removing that individual from the assurance team; or**
- (c) Involving an additional professional accountant in the firm who was not a member of the assurance team to review the work done or otherwise advise as necessary.**

If such safeguards do not reduce the threat to an appropriate level, the only appropriate action is to withdraw from, or refuse to accept, the assurance engagement.

PART C: PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 1 Introduction

SECTION 2 Potential conflicts

SECTION 3 Preparation and reporting of information

SECTION 4 Acting with sufficient expertise

SECTION 5 Financial interests

SECTION 6 Inducements

SECTION 7 Disclosing information

SECTION 1

INTRODUCTION

1.1 This Part of the Code applies to all professional accountants in business. Professional accountants in business should also follow the guidance set out in Part A of this Code, which applies to all professional accountants. Where the term professional accountants is used in this Part, it should be taken to refer to professional accountants in business.

1.2 Professional accountants in business should comply with the fundamental principles, which are: (a) Integrity; (b) Objectivity; (c) Professional Competence and Due Care; (d) Confidentiality; and (e) Professional Behavior, discussed more fully in Section 1.14 of Part A.

1.3 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

1.4 Professional accountants may be salaried employees, partners, directors (whether executive or non-executive), owner managers, volunteers or others working for one or more employing organization. The legal form of the relationship with the employing organization has no bearing on the ethical responsibilities incumbent on professional accountants in business.

1.5 Professional accountants have a responsibility to further the legitimate aims of their employing organization. This Part of the Code does not seek to hinder professional accountants from properly fulfilling that responsibility, but considers circumstances in which conflicts may arise with their absolute duty to comply with the fundamental principles.

1.6 Professional accountants in business often occupy senior positions within employing organizations. The more senior they become, the greater will be their ability and opportunity to influence events, practices and attitudes. Professional accountants are encouraged, therefore, to establish an ethics-based culture in their employing organizations.

1.7 The environment in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. This Part of the Code of Ethics provides a framework, built on principles, to assist professional accountants in business to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, professional accountants should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level so that compliance with the fundamental principles is not compromised. If appropriate safeguards cannot be implemented, professional accountants should either refrain from performing the specific professional service involved or consider resigning from the employing organization.

1.8 The examples presented in the following sections are intended to illustrate the application of the principles and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants in business that

may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples; rather, they should apply the principles to the particular circumstances they face.

1.9 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest;
- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and
- (e) Intimidation.

These threats are discussed more fully in Part A of this Code.

1.10 Examples of circumstances that may create self-interest threats for professional accountants in business include, but are not limited to:

- (a) Financial interests, loans or guarantees.**
- (b) Incentive arrangements.**
- (c) Concern over employment security.**
- (d) Commercial pressure from outside the employing organization.**

1.11 Circumstances that may create self-review threats include, but are not limited to, business decisions or data being subject to review and justification by the same person responsible for making those decisions or preparing that data.

1.12 Examples of circumstances that may create advocacy threats include, but are not limited to:

- (a) Commenting publicly on future events in particular circumstances where outcomes may be doubtful or where information is incomplete.**
- (b) Acting publicly as an advocate for a particular position where bias may arise or where the validity of that position may later be called into question.**

1.13 Examples of circumstances that may create familiarity threats include, but are not limited to:

- (a) A person in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.**
- (b) Long association with business contacts influencing business decisions.**
- (c) Acceptance of gifts or preferential treatment, unless the value is clearly insignificant.**

1.14 Examples of circumstances that may create intimidation threats include, but are not limited to:

(a) Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.

(b) A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts.

1.15 Professional accountants may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In all professional and business relationships, professional accountants should always be on the alert for such circumstances and threats.

1.16 Safeguards that may eliminate or reduce to acceptable levels the threats faced by professional accountants fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

1.17 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 1.17 of Part A of this Code.

1.18 Safeguards in the work environment include, but are not restricted to:

(a) The employing organization's systems of corporate oversight or other oversight structures.

(b) The employing organization's ethics and conduct programs.

(c) Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.

(d) Strong internal controls.

(e) Appropriate disciplinary processes.

(f) Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.

(g) Policies and procedures to implement and monitor the quality of employee performance.

(h) Timely communication of the employing organization's policies and procedures, and any changes to them, to all employees.

(i) The provision of appropriate training and education to employees.

(j) Policies and procedures to empower employees to communicate to senior levels any ethical issues that concern them. This includes informing employees of the procedures open to them.

SECTION 2

POTENTIAL CONFLICTS

2.1 Professional accountants have a professional obligation to comply with the fundamental principles. There may be times, however, when their responsibilities to an employing organization and their professional obligations to comply with the fundamental principles are in conflict. Ordinarily, professional accountants should support the legitimate and ethical objectives established by their employers and the rules and procedures drawn up in support of those objectives. Nevertheless, where compliance with the fundamental principles is threatened, professional accountants must consider their response to the circumstances.

2.2 As a consequence of their responsibilities to their employing organization, professional accountants may find themselves under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from supervisors, managers, directors or other individuals within the employing organization. Professional accountants may find themselves under pressure to:

- (a) Act contrary to law or regulation.
- (b) Act contrary to technical or professional standards.
- (c) Facilitate unethical or illegal earnings management strategies.
- (d) Lie to, or otherwise intentionally mislead (including misleading by keeping silent) others, in particular:

-Those acting as auditors to the employing organization; or

-Regulators.

- (e) Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:

-The financial statements;

-Tax compliance;

-Legal compliance; or

-Reports required by securities regulators.

2.3. The significance of threats arising from such pressures, such as intimidation threats, should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Safeguards that might mitigate such pressures include:

- (a) Obtaining advice where appropriate from within the employing organization, an independent professional advisor or a relevant professional body.
- (b) The existence of a formal dispute resolution process within the employing organization.
- (c) Seeking legal advice.

2.4 Where it is not possible to reduce the threat to an acceptable level, professional accountants may conclude that it is appropriate to consider resigning from the employing organization. **In circumstances where professional accountants believe that unethical behaviours or actions by others will continue to occur within the employing organization, they should seek legal advice, and after considering such advice, if deemed necessary, should consider resignation from the service of the employing organization.**

SECTION 3

PREPARATION AND REPORTING OF INFORMATION

3.1 Professional accountants are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. Professional accountants should prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context. **Professional accountants should maintain information for which they are responsible in a manner that:**

(a) Describes clearly the true nature of business transactions, assets or liabilities;

(b) Classifies and records information in a timely and proper manner; and

(c) Does not materially misrepresent the facts.

3.2 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may arise where professional accountants may be pressured (either externally or by the possibility of personal gain) to allow themselves to be associated with misleading information or to become associated with misleading information through the actions of others.

3.3 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards might include consultation with superiors within the employing organization, for example, the audit committee or other body responsible for governance, or with a relevant professional body.

3.4 Where it is not possible to reduce the threat to an acceptable level, professional accountants should refuse to remain associated with information they consider is or may be misleading. Should they be aware that the issuance of misleading information is either significant or persistent, they should consider informing appropriate authorities in line with the guidance in Section 7. They may also wish to take legal advice or consider resignation.

SECTION 4

ACTING WITH SUFFICIENT EXPERTISE

4.1 The fundamental principle of professional competence and due care requires that professional accountants should only undertake significant tasks for which they have, or can obtain, sufficient specific training or experience. They should not intentionally mislead employers as to how much expertise or experience they have, nor should they fail to seek appropriate expert advice and assistance when required.

4.2 Circumstances that may threaten the ability of professional accountants to perform their duties with the appropriate degree of professional competence and due care include:

- (a) Insufficient time for properly performing or completing the relevant duties.
- (b) Incomplete, restricted or otherwise inadequate information for performing the duties properly.
- (c) Insufficient experience, training and/or education.
- (d) Inadequate resources for the proper performance of the duties.

4.3 The significance of such threats will depend on factors such as the extent to which the professional accountants are working with others, their relative seniority in the business and the level of supervision and review applied to their work. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Safeguards that may be considered include:

- (a) Obtaining additional advice or training.
- (b) Ensuring that there is adequate time available for performing the relevant duties.
- (c) Obtaining assistance from someone with the necessary expertise.
- (d) Consulting, where appropriate, with:

-Superiors within the employing organization;

-Independent experts; or

-A relevant professional body.

4.4 Where threats cannot be eliminated or reduced to an acceptable level, professional accountants should refuse to perform the duties in question, making clear their reasons for doing so.

SECTION 5

FINANCIAL INTERESTS

5.1 Professional accountants in business may have financial interests that could, in certain circumstances, give rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may arise through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. **Examples include situations where the professional accountant or an immediate or close family member:**

(a) Holds a significant direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the professional accountant;

(b) Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant;

(c) Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant;

(d) Holds, directly or indirectly, share options in the employing organization which are, or will soon be, eligible for conversion; or

(e) May qualify for share options in the employing organization or performance related bonuses if certain targets are achieved.

5.2 In evaluating the significance of such a threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, professional accountants must examine the nature of the financial interest. This includes an evaluation of the significance of the financial interest and whether it is direct or indirect. Clearly, what constitutes a significant or valuable stake in an organization will vary from individual to individual, depending on personal circumstances.

5.3 If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards might include:

(a) Alertness to the threats inherent in holding or trading capital instruments in the employing organization.

(b) Disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organization, in accordance with any internal policies.

(c) Consultation, where appropriate, with superiors within the employing organization.

(d) Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.

(e) Internal and external audit procedures.

(f) Up-to-date education on ethical issues and the legal restrictions and other regulations around potential insider trading.

5.4 Professional accountants should neither manipulate information nor use privileged information for personal gain.

SECTION 6

INDUCEMENTS

RECEIVING OFFERS OF INDUCEMENTS

6.1 Professional accountants in business may find themselves in situations where they or immediate or close family members are offered inducements. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.

6.2 Offers of inducements may create threats to compliance with the fundamental principles. When they or their immediate or close family members are offered inducements, professional accountants should consider the situation carefully. Self-interest threats to objectivity or confidentiality may arise where offers are made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior or obtain confidential information. Intimidation threats to objectivity or confidentiality may arise if an offer of an inducement, whether accepted or declined, is followed by threats to make that offer public and damage the reputation of either the professional accountant or an immediate or close family member.

6.3 The significance of such threats will depend on the nature, value and intent behind the offer. When offers of inducements which a reasonable and informed third party, having knowledge of all relevant information, would consider insignificant and not intended to encourage unethical behaviours are made in an open manner, then professional accountants may conclude that the offers are made in the normal course of public relations without the specific intent to influence decision making or to obtain information. In such cases, they may generally conclude that there is no significant threat to compliance with the fundamental principles.

6.4 **If evaluated threats are other than clearly insignificant, professional accountants should not accept inducements.** As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of inducements but, sometimes, merely from the fact of the offer having been made, additional safeguards should be adopted. Professional accountants should assess the risk associated with all such offers and should:

- (a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organization;
- (b) Consider whether it is appropriate to inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; professional accountants should, however, consider seeking legal advice before taking such a step;
- (c) Advise immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example as a result of their employment situation; and
- (d) Consider whether it is appropriate to inform higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

OFFERING INDUCEMENTS

6.5 Professional accountants may find themselves in situations where they are expected to, or are under other pressure to, offer inducements to subordinate the judgment of another individual or organization, influence a decision-making process or obtain confidential information.

6.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organization and, by extension, the professional accountant, can be influenced improperly.

6.7 Threats to compliance with the fundamental principles may arise in the following circumstances:

(a) A professional accountant experiences pressure from within the employing organization to offer an inducement to subordinate the judgment of another individual or organization, influence a decision-making process or obtain information; or

(b) A third party outside the employing organization asks a professional accountant for an inducement that might influence favorable business decisions or actions.

6.8 Professional accountants should not offer inducements that a reasonable and informed third party, having knowledge of all relevant information, would consider to have an improper influence on the professional judgment of those with whom the accountants have a professional or business relationship.

6.9 Where the pressure to offer an unethical inducement comes from within the employing organization, professional accountants should follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

SECTION 7

DISCLOSING CONFIDENTIAL INFORMATION

7.1 Professional accountants should maintain the fundamental principle of confidentiality. They should not disclose confidential information acquired in the course of their work unless permitted to do so or as required by law or regulation.

7.2 The possession of confidential information may give rise to specific threats to confidentiality in certain circumstances. For example, the possession and non-disclosure of confidential information may threaten compliance with the fundamental principles when professional accountants:

(a) Are required by law to disclose information, for example, in connection with anti-money laundering or anti-terrorist legislation; or

(b) Are permitted by law to disclose information or believe that confidential information should be disclosed in the public interest, for example, where the employing organization has committed, or proposes to commit, a crime or fraudulent act.

7.3 Where required by law to disclose confidential information, for example as a result of anti-money laundering or anti-terrorist legislation, or in connection with legal proceedings involving either themselves or the employing organization, professional accountants in business should always disclose that information in compliance with relevant legal requirements. They should also consider obtaining legal advice and/or consulting their professional body before making any disclosure.

7.4 Some circumstances, professional accountants may consider disclosing information outside the employing organization, when not obligated to do so by law or regulation because they believe it would be in the public interest. When considering such disclosure, professional accountants should, where appropriate, follow the internal procedures of the employing organization in an attempt to rectify the situation. If the matter cannot be resolved within the employing organization, professional accountants in business should consider matters including the following:

(a) Legal constraints and obligations.

(b) Whether members of the public are likely to be adversely affected.

(c) The gravity of the matter, for example the size of the amounts involved and the extent of likely financial damage.

(d) The possibility or likelihood of repetition.

(e) The reliability and quality of the information available.

(f) The reasons for the employing organization's unwillingness to disclose matters to the relevant authority.

7.5 In deciding whether to disclose confidential information, they should also consider the following points:

(a) When the employer gives authorization to disclose information, whether or not the interests of all the parties, including third parties whose interests might be affected, could be harmed;

(b) Whether or not all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any;

(c) The type of communication that is expected and to whom it is addressed; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients; and

(d) The legal or regulatory obligations and the possible implications of disclosure for the professional accountant.

7.6 Before making such disclosure, professional accountants should obtain legal advice as to their duties and obligations in the context of their profession

al and business relationships.