



Certified Practising Accountants
Papua New Guinea

Code of Ethics

FOR PROFESSIONAL ACCOUNTANTS

STATEMENT OF POLICY OF IFAC BOARD

PREFACE TO ETHICAL REQUIREMENTS OF CERTIFIED PRACTISING ACCOUNTANTS PAPUA NEW GUINEA

This Preface has been approved by the Council of the CPA PNG for publication.

- CPA PNG as a member of the International Federation of Accountants (IFAC) is committed to the IFAC's broad objective of developing and enhancing a coordinated worldwide accountancy profession with harmonized standards. In working toward this objective, IFAC develops guidance on ethics for professional accountants. IFAC believes that issuing such guidance will improve the degree of uniformity of professional ethics throughout the world.
- As a condition of its membership, the CPA PNG is obliged to support the work of IFAC by informing its members of every pronouncement developed by IFAC, and to work towards implementation, when and to the extent possible under local circumstances, of those pronouncements.
- CPA PNG has determined to adopt the IFAC Code of Ethics for Professional Accountants as the ethical requirements in Papua New Guinea. The Council of CPA PNG has prepared an explanatory foreword (attachment A) which sets out the status and effective date of this decision.
- An explanatory foreword will be issued on the status of each additional IFAC pronouncement on Ethics that is adopted by the Council of CPA PNG. Where the Council of CPA PNG deems it necessary, additional ethical requirements may be developed on matters of relevance in Papua New Guinea not covered by an IFAC pronouncement.
- Members of CPA PNG are expected to comply with the ethical requirements issued by CPA PNG. Apparent failure to do so may result in an investigation into the member's conduct by the Accountants Statutory Committee – prescribed by the Accountants Act 1996 and amendments.
- It is not practical to establish ethical requirements that apply to all situations and circumstances that professional accountants may encounter. Therefore, professional accountants should consider the ethical requirements as the basic principles which they should follow in performing their work.
- The date from which members are expected to observe pronouncements on ethics is set out in the explanatory foreword.

Code of Ethics of CPA PNG

Explanatory Foreword

The Council of CPA PNG has determined that this Code should be adopted. This Code is mandatory for all members of CPA PNG to observe in respect of professional services performed in Papua New Guinea after 19 August 2004.

STATEMENT OF POLICY OF IFAC BOARD

IMPLEMENTATION AND ENFORCEMENT OF ETHICAL REQUIREMENTS

Introduction

The mission of the International Federation of Accountants (IFAC) as set out in paragraph 2 of its Constitution is ‘the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest’. In working towards this objective, the IFAC has established committees to develop and issue pronouncements and technical standards to cover the professional practice of accounting.

IFAC believes that the issue of such Board pronouncements will help improve the degree of uniformity of the accountancy profession throughout the world. However, it should be recognised that in order to develop such pronouncements the legal, social and economic conditions prevailing in each country will affect the extent and manner in which the pronouncements are applied. Notwithstanding this condition, it is important that each national profession have a set of clearly articulated pronouncements and technical standards to cover the professional practice of accounting.

Once the relevant pronouncements are implemented they should be governed by a policy which ensures that the ethical requirements (which includes compliance with technical standards) are followed.

The Board of IFAC wishes to draw the attention of member bodies to the following Statement of Policy on Implementation and Enforcement of Ethical Requirements.

Implementation of Ethical Requirements

The task of preparing detailed ethical requirements is primarily that of the professional bodies of each country concerned, even if the responsibility for promulgating those requirements is assumed, partly or wholly by the legislative body of that country.

The adoption of ethical requirements by member bodies will not necessarily ensure that the standard of conduct laid down will be maintained; if it is to be effective, provision must be made by the appropriate bodies in each country for their implementation.

Each member body has the responsibility to promote high standards of professional conduct and to ensure that ethical requirements are observed and failure to observe them will be investigated and appropriate action taken.

As noted in paragraph 2.6 of the *Code of Ethics for Professional Accountants*, member bodies are encouraged to ensure that counseling and advice is available to help resolve ethical conflicts. This function is an important part of implementation and can be fulfilled by such means as providing a service to respond to questions raised by individual members on interpretations of ethical requirements or by the formation of appropriate committees within member bodies which would monitor the ethical requirements of those bodies.

Provision of an interpretation/advice/counseling service should offer the following features:

Its purposes and operating procedures should be transparent and widely promoted to the membership. The operating procedures should provide safeguards such that only reasonable questions from members are considered and that the questioner is responsible for clearly setting out the facts and circumstances. The individuals charged with responsibility for providing the advice must be at a level commensurate with such authority and have sufficient technical expertise to provide such advice. Inquiries would ordinarily be made on a totally confidential basis; and results of any interpretation/advice questions could be subject to publication (on a 'no-name' basis) at the general membership as an educational method.

Implementation of ethical requirements will be assisted by the introduction to a program designed to ensure that individual members are aware of all ethical requirements and the consequences of non-compliance with those requirements. This information may be communicated to individual members in such ways as members' handbooks, technical releases, professional journals, reports on disciplinary hearings and activities, programs of continuing professional education, newsletters, financial and business press, and responses from the appropriate committee to requests for advice.

Most Accountants will respect the ethical requirements to which they are subject without any necessity for compulsion or sanctions. Nevertheless, cases may occur where such requirements are flagrantly ignored or where accountants through error, oversight or lack of understanding, fail to observe them. It is in the interest of the profession and all its members in any country that the general public should have confidence that failure to observe the ethical requirements of the profession in that country will be investigated and, where appropriate, disciplinary action taken.

Members should therefore be prepared to justify any departures from the ethical requirements. Failure to comply with ethical requirements or the inability to justify departures therefore may constitute professional misconduct that could give rise to disciplinary action.

Enforcement of Ethical Requirements

The power of disciplinary action may be provided by legislation or by the Rules of CPA PNG. Disciplinary action may be provided by legislative agencies other than CPA PNG. Such regulatory agencies may be jointly or solely responsible for the disciplinary action or provide a review process over disciplinary action already taken.

Disciplinary action ordinarily arises from such issues as:

- Failure to observe the required standard of professional care, skills or competence.

- Non-compliance with rules of ethics; and

- Discreditable or dishonourable conduct

Disciplinary investigations will ordinarily commence as a result of a complaint. CPA PNG shall consider all complaints. Investigations may, however, be initiated by CPA PNG or regulatory agency without a complaint being made. Investigations can be carried out on a verbal or correspondence basis. Reference should always be made to CPA PNG against whom the complaint is being made as well as to the complainant. When there is a dispute, conciliation may be attempted. Setting time limits on the investigatory process may be difficult, particularly when the circumstances involve other legal processes.

Arising from the investigatory process, the member body or regulatory agency will decide as to whether to commence disciplinary proceedings. There may be a right to appeal, within a set time frame, against the decision.

The disciplinary proceedings will ordinarily be carried out by the disciplinary committee or similar tribunal. The proceedings should be held in a manner which is consistent with the legal requirements of Papua New Guinea. This will ordinarily involve legal representation, taking evidence and keeping records of the proceedings. The case against the defendant may be presented by a lawyer, a representative of the investigation committee or the secretariat of CPA PNG.

Sanctions commonly imposed by disciplinary bodies include the following:

- Reprimand;
- Fine;
- Payment of costs;
- Withdrawal of practising rights;
- Suspension; and
- Expulsion from membership.

Other sanctions can include warning, the refund of the fee charged to the client, additional education and the work to be completed by another member at the disciplined member's expense.

Ordinarily there is a right to appeal by both sides within fixed time limits. Such a right of appeal may be to a body not connected with CPA PNG. Consideration should be given to the inclusion of non-members in the body of appeal and the appointment of a non-member as the chairman. The appeal body should review all the evidence considered at the disciplinary proceedings. Additional evidence may also be called for and taken either orally or in writing.

It may be appropriate for publicity to be given to the disciplinary and appeal proceedings. In this way, both members and the general public are informed. However, the aspects of confidentiality and the type of violation have to be considered in deciding the method of publicity. There may also be a need to communicate the decision to an appropriate regulatory body or vice versa where the regulatory body has carried out the disciplinary hearing.

CODE OF ETHICS FOR THE PROFESSIONAL ACCOUNTANT

CONTENT

	<i>Paragraphs</i>
Definitions	
Introduction	1
The Public Interest	9
Objective	14
Fundamental Principles	15
The Code	17
PART A – APPLICABLE TO ALL PROFESSIONAL ACCOUNTANTS	
1. Integrity and Objectivity	1.1
2. Resolution of Ethical Conflicts	2.1
3. Professional Competence	3.1
4. Confidentiality	4.1
5. Tax Practice	5.1
6. Cross Border Activities	6.1
7. Publicity	7.1
PART B – APPLICABLE TO PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE	
8. Independence for Assurance Engagements	8.1
9. Professional Competence and Responsibilities Regarding the Use of Non-Accountants	9.1
10. Fees and Commissions	10.1
11. Activities Incompatible with the Practice of Public Accountancy	11.1
12. Clients' Monies	12.1
13. Relations with Other Professional Accountants in Public Practice	13.1
14. Advertising and Solicitation	14.1
PART C – APPLICABLE TO BE EMPLOYED PROFESSIONAL ACCOUNTANTS	
15. Conflict of Loyalties	15.1
16. Support for Professional Colleagues	16.1
17. Professional Competence	17.1
18. Presentation of Information	18.1

DEFINITIONS

In this Code of Ethics for Professional Accountants the following expressions appear in **bold type** when they are first used and have the following meaning 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.
Assurance client	An entity in respect of which a firm conducts an assurance engagement.
Assurance engagement	<p>An engagement conducted to provide:</p> <ul style="list-style-type: none"> (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. <p>This would include an engagement in accordance with the International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board or in accordance with specific standards for assurance engagements issued by the International Auditing and Assurance Standards Board such as an audit or review of financial statements in accordance with International Standards of Auditing.</p> <ul style="list-style-type: none"> (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 accounting	Any bank account which is used solely for the banking of clients' monies.
Clients monies	Any monies – including documents of title to money e.g., bills of exchange, promissory notes, and documents of title which can be converted into money e.g., bearer bonds – received by a professional accountant in public practice to be held or paid out on the instruction of the person from whom or on behalf of they are received.
Close family	A parent, non-dependent or sibling.
Direct financial interest	<p>A financial interest</p> <p>Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by to others); or</p> <p>Beneficially owned through a collective investment vehicle, estate, trust other intermediary over which the individual or entity has control.</p>

Directors and officers	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.
Employed professional accountant	A professional accountant employed in industry, commerce, the public sector or education.
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 entity 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	<ul style="list-style-type: none"> (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 (equivalent) or dependent.
Independence	<ul style="list-style-type: none"> (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that comprise professional judgment, allowing an individual to act with integrity, objectivity and professional skepticism; and. (b) Independence 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 include 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 an individual or entity has no control.
Lead engagement partner	In connection with a 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 identity	An entity whose shares, stock or debt are quoted or listed on recognised 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 national or internationally.

Objectivity	A combination of impartiality, intellectual honesty and a freedom from conflicts of interest.
Office Practice	A distinct sub-group, whether organized on geographical or practice lines. A sole practitioner, a partnership or a corporation of professional accountants which offers professional services to the public.
Professional accountant	Those persons, whether they be in public practice, (including a sole practitioner, partnership or corporate body), industry, commerce, the public sector or education, who are members of an IFAC member body.
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.
Professional services	Any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consultant and financial management services.
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	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client 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.

IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

Introduction

1. The International Federation of Accountants (IFAC) believes that due to national differences of culture, language, legal and social systems, the task of preparing detailed ethical requirements is primarily that of the member bodies in each country concerned and that they also have the responsibility to implement and enforce such requirements.
2. However, IFAC believes that the identity of the accountancy profession is characterized worldwide by its endeavor to achieve a number of common objectives and by its observance of certain fundamental principles for that purpose.
3. IFAC, therefore, recognizing the responsibilities of the accountancy profession as such, and considering its own role to be that of providing guidance, encouraging continuity of efforts, and promoting harmonization, has deemed it essential to establish an international Code of Ethics for Professional Accountants to be the basis on which the ethical requirements (code of ethics, detailed rules, guidelines, standards of conduct, *etc.*) for **professional accountants*** in each country should be founded.

* See definitions.

4. This international Code is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct for professional accountants and states the fundamental principles that should be observed by professional accountants in order to achieve common objectives. The accountancy profession throughout the world operates in an environment with different cultures and regulatory requirements. The basic intent of the Code, however, should always be respected. It is also acknowledged that, in those instances where a national requirement is in conflict with a provision in the Code, the national requirement would prevail. For those countries that wish to adopt the Code as their own national Code, IFAC has developed wording which may be used to indicate the authority and applicability in the country concerned. The wording is contained in the IFAC Statement of Policy of Council** *Preface to Ethical Requirements of (Name of Member Body)*.

Section 8 of this Code 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 that section. However, if member bodies or firms are prohibited from complying with certain parts of Section 8 by law or regulation, they should comply with all other parts of that section.

See definitions.

* Effective May 2000, the IFAC Council was renamed the IFAC Board.*

5. Further, the Code is established on the basis that unless a limitation is specifically stated, the objectives and fundamental principles are equally valid for all professional accountants, whether they be in public **practice**,* industry, commerce, the public sector or education.

* See definitions.

6. A profession is distinguished by certain characteristics including:
 - Mastery of a particular intellectual skill, acquired by training and education;
 - For details of the education requirements recommended by IFAC, reference should be made to the International Education Guidelines prepared by the Education Committee of IFAC.
 - Adherence by its members to a common code of values and conduct established by its administering body, including maintaining an outlook which is essentially objective; and
 - Acceptance of a duty to society as a whole (usually in return for restrictions in use of a title or in the granting of a qualification).
7. Members' duty to their profession and to society may at times seem to conflict with their immediate self interest or their duty of loyalty to their employer.
8. Against this background it is beholden on member bodies to lay down ethical requirements for their members to ensure the highest quality of performance and to maintain public confidence in the profession.

The Public Interest

9. A distinguishing mark of a profession is acceptance of its responsibility to the public. The accountancy profession's public consists of clients, credit grantors, governments, employers, employees, investors, the business and financial community, and others who rely on the **objectivity*** and integrity of professional accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on the accountancy profession. The public interest is defined as the collective well being of the community of people and institutions the professional accountant serves.
 - * See definitions.
10. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. The standards of the accountancy profession are heavily determined by the public interest, for example:
 - Independent auditors help to maintain the integrity and efficiency of the financial statements presented to financial institutions in partial support for loans and to stockholders for obtaining capital;
 - Financial executives serve in various financial management capacities in organizations and contribute to the efficient and effective use of the organization's resources;
 - Internal auditors provide assurance about a sound internal control system which enhances the reliability of the external financial information of the employer;
 - Tax experts help to establish confidence and efficiency in, and the fair application of, the tax system; and
 - Management consultants have a responsibility toward the public interest in advocating sound management decision-making.
11. Professional accountants have an important role in society. Investors, creditors, employers and other sectors of the business community, as well as the government and the public at large rely on professional accountants for sound financial accounting and reporting, effective financial management and competent advice on a variety of business and taxation matters. The attitude and behavior of professional accountants in providing such services have an impact on the economic well being of their community and country.

12. Professional accountants can remain in this advantageous position only by continuing to provide the public with these unique services at a level which demonstrates that the public confidence is firmly founded. It is in the best interest of the worldwide accountancy profession to make known to users of the services provided by professional accountants that they are executed at the highest level of performance and in accordance with ethical requirements that strive to ensure such performance.
13. In formulating their national code of ethics, member bodies should therefore consider the public service and user expectations of the ethical standards of professional accountants and take their views into account. By doing so, any existing "expectation gap" between the standards expected and those prescribed can be addressed or explained.

Objectives

14. The Code recognizes that the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement set out above. These objectives require four basic needs to be met:

Credibility

In the whole of society there is a need for credibility in information and information systems.

Professionalism

There is a need for individuals who can be clearly identified by clients, employers and other interested parties as professional persons in the accountancy field.

Quality of Services

There is a need for assurance that all services obtained from a professional accountant are carried out to the highest standards of performance.

Confidence

Users of the services of professional accountants should be able to feel confident that there exists a framework of professional ethics which governs the provision of those services.

Fundamental Principles

15. In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles.
16. The fundamental principles are:

Integrity

A professional accountant should be straightforward and honest in performing professional services.*

* See definitions.

Objectivity

A professional accountant should be fair and should not allow prejudice or bias, conflict of interest or influence of others to override objectivity.

Professional Competence and Due Care

A professional accountant should perform professional services with due care, competence and diligence and has a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the

advantage of competent professional service based on up-to-date developments in practice, legislation and techniques.

Confidentiality

A professional accountant should respect the confidentiality of information acquired during the course of performing professional services and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.

Professional Behavior

A professional accountant should act in a manner consistent with the good reputation of the profession and refrain from any conduct which might bring discredit to the profession. The obligation to refrain from any conduct which might bring discredit to the profession requires IFAC member bodies to consider, when developing ethical requirements, the responsibilities of a professional accountant to clients, third parties, other members of the accountancy profession, staff, employers, and the general public.

Technical Standards

A professional accountant should carry out professional services in accordance with the relevant technical and professional standards. Professional accountants have a duty to carry out with care and skill, the instructions of the client or employer insofar as they are compatible with the requirements of integrity, objectivity and, in the case of **professional accountants in public practice**,* independence (see Section 8 below). In addition, they should conform with the technical and professional standards promulgated by:

* See definitions.

IFAC (e.g., International Standards on Auditing);
International Accounting Standards Committee;
The member's professional body or other regulatory body; and
Relevant legislation.

The Code

17. The objectives as well as the fundamental principles are of a general nature and are not intended to be used to solve a professional accountant's ethical problems in a specific case. However, the Code provides some guidance as to the application in practice of the objectives and the fundamental principles with regard to a number of typical situations occurring in the accountancy profession.
18. The Code set out below is divided into three parts:
 - Part A applies to all professional accountants unless otherwise specified.
 - Part B applies only to those **professional** accountants in public practice.
 - Part C applies to **employed professional accountants**,* and may also apply, in appropriate circumstances, to accountants employed in public practice.

* See definitions.

PART A - APPLICABLE TO ALL PROFESSIONAL ACCOUNTANTS

SECTION 1

Integrity and Objectivity

- 1.1 Integrity implies not merely honesty but fair dealing and truthfulness. The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflicts of interest.
- 1.2 Professional accountants serve in many different capacities and should demonstrate their objectivity in varying circumstances. Professional accountants in public practice undertake assurance engagements, and render tax and other management advisory services. Other professional accountants prepare financial statements as a subordinate of others, perform internal auditing services, and serve in financial management capacities in industry, commerce, the public sector and education. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, professional accountants should protect the integrity of their professional services, and maintain objectivity in their judgment.
- 1.3 In selecting the situations and practices to be specifically dealt within ethics requirements relating to objectivity, adequate consideration should be given to the following factors:
 - (a) Professional accountants are exposed to situations which involve the possibility of pressures being exerted on them. These pressures may impair their objectivity.
 - (b) It is impracticable to define and prescribe all such situations where these possible pressures exist. Reasonableness should prevail in establishing standards for identifying relationships that are likely to, or appear to, impair a professional accountant's objectivity.
 - (c) Relationships should be avoided which allow prejudice, bias or influences of others to override objectivity.
 - (d) Professional accountants have an obligation to ensure that personnel engaged on professional services adhere to the principle of objectivity.
 - (e) Professional accountants should neither accept nor offer gifts or entertainment which might reasonably be believed to have a significant and improper influence on their professional judgment or those with whom they deal. What constitutes an excessive gift or offer of entertainment varies from country to country but professional accountants should avoid circumstances which would bring their professional standing into disrepute.

SECTION 2

Resolution of Ethical Conflicts

2.1 From time to time professional accountants encounter situations which give rise to conflicts of interest. Such conflicts may arise in a wide variety of ways, ranging from the relatively trivial dilemma to the extreme case of fraud and similar illegal activities. It is not possible to attempt to itemize a comprehensive checklist of potential cases where conflicts of interest might occur. The professional accountant should be constantly conscious of and be alert to factors which give rise to conflicts of interest. It should be noted that an honest difference of opinion between a professional accountant and another party is not in itself an ethical issue. However, the facts and circumstances of each case need investigation by the parties concerned.

2.2 It is recognized, however, that there can be particular factors which occur when the responsibilities of a professional accountant may conflict with internal or external demands of one type or another. Hence:

There may be the danger of pressure from an overbearing supervisor, manager, **director*** or partner; or when there are family or personal relationships which can give rise to the possibility of pressures being exerted upon them. Indeed, relationships or interests which could adversely influence, impair or threaten a professional accountant's integrity should be discouraged.

* See definitions.

A professional accountant may be asked to act contrary to technical and/or professional standards.

A question of divided loyalty as between the professional accountant's superior and the required professional standards of conduct could occur.

Conflict could arise when misleading information is published which may be to the advantage of the employer or client and which may or may not benefit the professional accountant as a result of such publication.

2.3 In applying standards of ethical conduct professional accountants may encounter problems in identifying unethical behavior or in resolving an ethical conflict. When faced with significant ethical issues, professional accountants should follow the established policies of the employing organization to seek a resolution of such conflict. If those policies do not resolve the ethical conflict, the following should be considered:

Review the conflict problem with the immediate superior. If the problem is not resolved with the immediate superior and the professional accountant determines to go to the next higher managerial level, the immediate superior should be notified of the decision. If it appears that the superior is involved in the conflict problem, the professional accountant should raise the issue with the next higher level of management. When the immediate superior is the Chief Executive Officer (or equivalent) the next higher reviewing level may be the Executive Committee, Board of Directors, Non-Executive Directors, Trustees, Partners' Management Committee or Shareholders.

Seek counseling and advice on a confidential basis with an independent advisor or the applicable professional accountancy body to obtain an understanding of possible courses of action.

If the ethical conflict still exists after fully exhausting all levels of internal review, the professional accountant as a last resort may have no other recourse on significant matters (e.g., fraud) than to resign and to submit an information memorandum to an appropriate representative of that organization.

- 2.4 Furthermore, in some countries local laws, regulations or professional standards may require certain serious matters to be reported to an external body such as an enforcement or supervisory authority.
- 2.5 Any professional accountant in a senior position should endeavor to ensure that policies are established within his or her employing organization to seek resolution of conflicts.
- 2.6 Member bodies are urged to ensure that confidential counseling and advice is available to members who experience ethical conflicts.

SECTION 3

Professional Competence

- 3.1 Professional accountants should not portray themselves as having expertise or experience they do not possess.
- 3.2 Professional competence may be divided into two separate phases:
 - (a) Attainment of professional competence

The attainment of professional competence requires initially a high standard of general education followed by specific education, training and examination in professionally relevant subjects, and whether prescribed or not, a period of work experience. This should be the normal pattern of development for a professional accountant.
 - (b) Maintenance of professional competence
 - (i) The maintenance of professional competence requires a continuing awareness of developments in the accountancy profession including relevant national and international pronouncements on accounting, auditing and other relevant regulations and statutory requirements.
 - (ii) A professional accountant should adopt a program designed to ensure quality control in the performance of professional services consistent with appropriate national and international pronouncements.

SECTION 4

Confidentiality

- 4.1 Professional accountants have an obligation to respect the confidentiality of information about a client's or employer's affairs acquired in the course of professional services. The duty of confidentiality continues even after the end of the relationship between the professional accountant and the client or employer.
- 4.2 Confidentiality should always be observed by a professional accountant unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

- 4.3 Professional accountants have an obligation to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality.
- 4.4 Confidentiality is not only a matter of disclosure of information. It also requires that a professional accountant acquiring information in the course of performing professional services does neither use nor appear to use that information for personal advantage or for the advantage of a third party.
- 4.5 A professional accountant has access to much confidential information about a client's or employer's affairs not otherwise disclosed to the public. Therefore, the professional accountant should be relied upon not to make unauthorized disclosures to other persons. This does not apply to disclosure of such information in order properly to discharge the professional accountant's responsibility according to the profession's standards.
- 4.6 It is in the interest of the public and the profession that the profession's standards relating to confidentiality be defined and guidance given on the nature and extent of the duty of confidentiality and the circumstances in which disclosure of information acquired during the course of providing professional services shall be permitted or required.
- 4.7 It should be recognized, however, that confidentiality of information is part of statute or common law and therefore detailed ethical requirements in respect thereof will depend on the law of the country of each member body.
- 4.8 The following are examples of the points which should be considered in determining whether confidential information may be disclosed:
- (a) When disclosure is authorized. When authorization to disclose is given by the client or the employer the interests of all the parties including those third parties whose interests might be affected should be considered.
 - (b) When disclosure is required by law. Examples of when a professional accountant is required by law to disclose confidential information are:
 - (i) To produce documents or to give evidence in the course of legal proceedings; and
 - (ii) To disclose to the appropriate public authorities infringements of the law which come to light.
 - (c) When there is a professional duty or right to disclose:
 - (i) To comply with technical standards and ethics requirements; such disclosure is not contrary to this section;
 - (ii) To protect the professional interests of a professional accountant in legal proceedings;
 - (iii) To comply with the quality (or peer) review of a member body or professional body; and
 - (iv) To respond to an inquiry or investigation by a member body or regulatory body.
- 4.9 When the professional accountant has determined that confidential information can be disclosed, the following points should be considered:
- Whether or not all the relevant facts are known and substantiated, to the extent it is practicable to do so; when the situation involves unsubstantiated fact or opinion, professional judgment should be used in determining the type of disclosure to be made, if any

What type of communication is expected and the addressee; in particular, the professional accountant should be satisfied that the parties to whom the communication is addressed are appropriate recipients and have the responsibility to act on it, and

Whether or not the professional accountant would incur any legal liability having made a communication and the consequences thereof.

In all such situations, the professional accountants should consider the need to consult legal counsel and/or the professional organization(s) concerned.

SECTION 5

Tax Practice

- 5.1 A professional accountant rendering professional tax services is entitled to put forward the best position in favor of a client, or an employer, provided the service is rendered with professional competence, does not in any way impair integrity and objectivity, and is in the opinion of the professional accountant consistent with the law. Doubt may be resolved in favor of the client or the employer if there is reasonable support for the position.
- 5.2 A professional accountant should not hold out to a client or an employer the assurance that the tax return prepared and the tax advice offered are beyond challenge. Instead, the professional accountant should ensure that the client or the employer are aware of the limitations attaching to tax advice and services so that they do not misinterpret an expression of opinion as an assertion of fact.
- 5.3 A professional accountant who undertakes or assists in the preparation of a tax return should advise the client or the employer that the responsibility for the content of the return rests primarily with the client or employer. The professional accountant should take the necessary steps to ensure that the tax return is properly prepared on the basis of the information received.
- 5.4 Tax advice or opinions of material consequence given to a client or an employer should be recorded, either in the form of a letter or in a memorandum for the files.
- 5.5 A professional accountant should not be associated with any return or communication in which there is reason to believe that it:
 - (a) Contains a false or misleading statement;
 - (b) Contains statements or information furnished recklessly or without any real knowledge of whether they are true or false; or
 - (c) Omits or obscures information required to be submitted and such omission or obscurity would mislead the revenue authorities.
- 5.6 A professional accountant may prepare tax returns involving the use of estimates if such use is generally acceptable or if it is impractical under the circumstances to obtain exact data. When estimates are used, they should be presented as such in a manner so as to avoid the implication of greater accuracy than exists. The professional accountant should be satisfied that estimated amounts are reasonable under the circumstances.
- 5.7 In preparing a tax return, a professional accountant ordinarily may rely on information furnished by the client or employer provided that the information appears reasonable. Although the examination or review of documents or other evidence in support of the

information is not required, the professional accountant should encourage, when appropriate, such supporting data to be provided.

In addition, the professional accountant:

- (a) Should make use of the client's returns for prior years whenever feasible;
- (b) Is required to make reasonable inquiries when the information presented appears to be incorrect or incomplete; and
- (c) Is encouraged to make reference to the books and records of the business operations.

5.8 When a professional accountant learns of a material error or omission in a tax return of a prior year (with which the professional accountant may or may not have been associated), or of the failure to file a required tax return, the professional accountant has a responsibility to:

- (a) Promptly advise the client or employer of the error or omission and recommend that disclosure be made to the revenue authorities. Normally, the professional accountant is not obligated to inform the revenue authorities, nor may this be done without permission.
- (b) If the client or the employer does not correct the error the professional accountant:
 - (i) Should inform the client or the employer that it is not possible to act for them in connection with that return or other related information submitted to the authorities; and,
 - (ii) Should consider whether continued association with the client or employer in any capacity is consistent with professional responsibilities.
- (c) If the professional accountant concludes that a professional relationship with the client or employer can be continued, all reasonable steps should be taken to ensure that the error is not repeated in subsequent tax returns.
- (d) Professional or statutory requirements in some countries may also make it necessary for the professional accountant to inform the revenue authorities that there is no longer any association with the return or other information involved and that acting for the client or employer has ceased. In these circumstances, the professional accountant should advise the client or employer of the position before informing the authorities and should give no further information to the authorities without the consent of the client or employer unless required to do so by law.

SECTION 6

Cross Border Activities

6.1 When considering the application of ethical requirements in cross border activities a number of situations may arise. Whether a professional accountant is a member of the profession in one country only or is also a member of the profession in the country where the services are performed should not affect the manner of dealing with each situation.

6.2 A professional accountant qualifying in one country may reside in another country or may be temporarily visiting that country to perform professional services. In all

circumstances, the professional accountant should carry out professional services in accordance with the relevant technical standards and ethical requirements. The particular technical standards which should be followed are not dealt within this section. In all other respects, however, the professional accountant should be guided by the ethical requirements set out below.

- 6.3 When a professional accountant performs services in a country other than the home country and differences on specific matters exist between ethical requirements of the two countries the following provisions should be applied:
- (a) When the ethical requirements of the country in which the services are being performed are less strict than the IFAC Code of Ethics, then the IFAC Code of Ethics should be applied.
 - (b) When the ethical requirements of the country in which services are being performed are stricter than the IFAC Code of Ethics, then the ethical requirements in the country where services are being performed should be applied.
 - (c) When the ethical requirements of the home country are mandatory for services performed outside that country and are stricter than set out in (a) and (b) above, then the ethical requirements of the home country should be applied. (In the case of cross border advertising and solicitation see also section 14 paragraph 14.4 and 14.5 below.)

SECTION 7

Publicity*

* See definitions.

- 7.1 In the marketing and promotion of themselves and their work, professional accountants should:
- (a) Not use means which brings the profession into disrepute;
 - (b) Not make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; and
 - (c) Not denigrate the work of other accountants.

PART B – APPLICABLE TO PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 8 (revised)

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**.*

* See definitions.

- 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 International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board describes the objectives and elements of assurance engagements to provide either a high or a moderate level of assurance. The International Auditing and Assurance Standards Board has also issued specific standards for certain assurance engagements. For example, International Standards on Auditing 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 International Standard on Assurance Engagements 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 International Standards on Assurance Engagements.

- 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:
- Engagements to report on a broad range of subject matters covering financial and non-financial information;
 - Attest and direct reporting engagements;
 - Engagements to report internally and externally; and
 - Engagements in the private and public sector.
- 8.5 The subject matter of an assurance engagement may take many forms, such as the following:
- Data (for example, historical or prospective financial information, statistical information, performance indicators);
 - Systems and processes (for example, internal controls); or
 - 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:
- Agreed-upon procedures;
 - Compilation of financial or other information;
 - Preparation of tax returns when no conclusion is expressed, and tax consulting;
 - Management consulting; and
 - Other advisory services.
- 8.7 This section of the Code of Ethics (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 Conceptual 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.

* See definitions.

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.

* See definitions.

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.

* See definitions.

8.16 Accordingly:

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;

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

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.

* See definitions.

These independence requirements for assurance engagements are illustrated as follows:

	<i>Type of Assurance Engagement</i>		
	<i>Audit</i>	<i>Non-Audit not restricted use</i>	<i>Non-Audit restricted use</i>
<i>Client</i>	<i>Assurance Team, firm and network firms</i>		
<i>Audit Client</i>	<i>Assurance Teams</i>		
<i>Non-Audit Assurance Client</i>	<i>Assurance Team and firm</i>	<i>Assurance Team and Firm has no material financial interest</i>	

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.

* See definitions.

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 8.100 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.

* See definitions.

- 8.26 When a firm conducts an assurance engagement in accordance with the International Standard on Assurance Engagements or with specific standards for assurance engagements issued by the International Auditing and Assurance Standards Board such as an audit or review of financial statements in accordance with International Standards on Auditing, 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.

* See definitions.

- 8.30 "Self-Review Threat" occurs when (1) 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 (2) 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.

* See definitions.

- 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
 - (j) 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 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:

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

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:

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;

Obtaining the audit client's acknowledgement of responsibility for the results of the non-assurance services;

Precluding personnel who provided the non-assurance services from participating in the audit engagement; and

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:

The previous non-assurance services were permissible under this section for non-listed audit clients;

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

The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous services or reduce them to an acceptable level.

Effective Date

- 8.48 This section is applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is encouraged.

SECTION 9

Professional Competence and Responsibilities Regarding the Use of Non-Accountants

- 9.1 Professional accountants in public practice should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance is obtained so as to enable them to satisfactorily perform such services. If a professional accountant does not have the competence to perform a specific part of the professional service, technical advice may be sought from experts such as other professional accountants, lawyers, actuaries, engineers, geologists, valuers.
- 9.2. In such situations, although the professional accountant is relying on the technical competence of the expert, the knowledge of the ethical requirements cannot be automatically assumed. Since the ultimate responsibility for the professional service rests with the professional accountant, the professional accountant should see that the requirements of ethical behavior are followed.
- 9.3. When using the services of experts who are not professional accountants, the professional accountant must take steps to see that such experts are aware of ethical requirements. Primary attention should be paid to the fundamental principles in paragraph 16 of the Introduction to this Code. These principles would extend to any assignment in which such experts would participate.
- 9.4. The degree of supervision and the amount of guidance that will be needed will depend upon the individuals involved and the nature of the engagement. Examples of such guidance and supervision might include:
- Asking individuals to read the appropriate ethical codes
 - Requiring written confirmation of understanding of the ethical requirements, and
 - Providing consultation when potential conflicts arise.
- 9.5 The professional accountant should also be alert to specific independence requirements or other risks unique to the engagement. Such situations will require special attention and guidance/supervision to see that ethical requirements are met. For example, Section 8 of this Code requires all professionals participating in the assurance engagement to be independent of the assurance client.

- 9.6 If at any time the professional accountant is not satisfied that proper ethical behavior can be respected or assured, the engagement should not be accepted; or, if the engagement has commenced, it should be terminated.

SECTION 10

Fees and Commissions

- 10.1 Professional accountants in public practice who undertake professional services for a client, assume the responsibility to perform such services with integrity and objectivity and in accordance with the appropriate technical standards. That responsibility is discharged by applying the professional skill and knowledge which professional accountants in public practice have acquired through training and experience. For the services rendered, the **professional accountant in public practice*** is entitled to remuneration.

* See definitions.

Professional Fees

- 10.2 Professional fees should be a fair reflection of the value of the professional services performed for the client, taking into account:
- (a) The skill and knowledge required for the type of professional services involved.
 - (b) The level of training and experience of the persons necessarily engaged in performing the professional services.
 - (c) The time necessarily occupied by each person engaged in performing the professional services; and
 - (d) The degree of responsibility that performing those services entails.
- 10.3 Professional fees should normally be computed on the basis of appropriate rates per hour or per day for the time of each person engaged in performing professional services. These rates should be based on the fundamental premise that the organization and conduct of the professional accountant in public practice and the services provided to clients are well planned, controlled and managed. They should take into account the factors set out in paragraph 10.2 and are influenced by the legal, social and economic conditions of each country. It is for each professional accountant in public practice to determine the appropriate rates.
- 10.4 A professional accountant in public practice should not make a representation that specific professional services in current or future periods will be performed for either a stated fee, estimated fee, or fee range if it is likely at the time of the representation that such fees will be substantially increased and the prospective client is not advised of that likelihood.
- 10.5 When performing professional services for a client it may be necessary or expedient to charge a pre-arranged fee, in which event the professional accountant in public practice should estimate a fee taking into account the matters referred to in paragraphs 10.2 through 10.4.

- 10.6 It is not improper for a professional accountant in public practice to charge a client a lower fee than has previously been charged for similar services, provided the fee has been calculated in accordance with the factors referred to in paragraphs 10.2 through 10.4.

Commentary

The fact that a professional accountant in public practice secures work by quoting a fee lower than another is not improper. However, professional accountants in public practice who obtain work at fees significantly lower than those charged by an **existing accountant**,* or quoted by others, should be aware that there is a risk of a perception that the quality of work could be impaired.

* See definitions.

Accordingly, when deciding on a fee to be quoted to a client for the performance of professional services, a professional accountant should be satisfied that, as a result of the fee quoted:

The quality of work will not be impaired and that due care will be applied to comply with all professional standards and quality control procedures in the performance of those services, and

The client will not be misled as to the precise scope of services that a quoted fee is intended to cover and the basis on which future fees will be charged.

- 10.7 As stated in paragraph 8.208:

An assurance engagement should not be performed for a fee that is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement. Paragraph 8.209 provides guidance on threats that may be created if a non-assurance engagement is provide to an assurance client for a contingent fee, and the safeguards that may reduce the threats to an acceptable level.

Commentary

Fees should not be regarded as being contingent if fixed by a court or other public authority. Fees charged on a percentage or similar basis, except when authorized by statute or approved by a member body as generally accepted practice for certain professional services, should be regarded as contingent fees.

- 10.8 The foregoing paragraphs relate to fees as distinct from reimbursement of expenses. Out-of-pocket expenses, in particular traveling expenses, attributable directly to the professional services performed for a particular client would normally be charged to that client in addition to the professional fees.
- 10.9 It is in the best interests of both the client and the professional accountant in public practice that the basis on which fees are computed and any billing arrangements are clearly defined, preferably in writing, before the commencement of the engagement to help in avoiding misunderstandings with respect to fees. (For further guidance refer to International Standard on Auditing 210 "Terms of Audit Engagements".)

Commissions

- 10.10 In those countries where payment and receipt of commissions are permitted, either by statute or by a member body, and the professional accountant in public practice accepts such a commission this fact should be disclosed to the client.

- 10.11 Subject to paragraph 10.10, a professional accountant in public practice should not pay a commission to obtain a client nor should a commission be accepted for referral of a client to a third party. A professional accountant in public practice should not accept a commission for the referral of the products or services of others.
- 10.12 Payment and receipt of referral fees between professional accountants in public practice when no services are performed by the referring accountant are regarded as commissions for the purpose of paragraph 10.11.
- 10.13 A professional accountant in public practice may enter into an arrangement for the purchase of the whole or part of an accounting practice requiring payments to individuals formerly engaged in the practice or payments to their heirs or estates. Such payments are not regarded as commissions for the purpose of paragraph 10.10.

SECTION 11

Activities Incompatible with the Practice of Public Accountancy

- 11.1 A professional accountant in public practice should not concurrently engage in any business, occupation or activity which impairs or might impair integrity, objectivity or independence, or the good reputation of the profession and therefore would be incompatible with the rendering of professional services.
- 11.2 The rendering of two or more types of professional services concurrently does not by itself impair integrity, objectivity or independence.
- 11.3 The simultaneous engagement in another business, occupation or activity unrelated to professional services which has the effect of not allowing the professional accountant in public practice properly to conduct a professional practice in accordance with the fundamental ethical principles of the accountancy profession should be regarded as inconsistent with the practice of public accountancy.

SECTION 12

Clients Monies

- 12.1 It is recognized that in some countries the law does not permit a professional accountant in public practice to hold **clients monies**;*. in other countries there are legal duties imposed on professional accountants in public practice who do hold such monies. The professional accountant in public practice should not hold clients' monies if there is reason to believe that they were obtained from, or are to be used for, illegal activities.

* See definitions.

- 12.2 A professional accountant in public practice entrusted with monies belonging to others should:
- (a) Keep such monies separately from personal or firm monies;
 - (b) Use such monies only for the purpose for which they are intended; and

- (c) At all times, be ready to account for those monies to any persons entitled to such accounting.
- 12.3 A professional accountant in public practice should maintain one or more bank accounts for clients' monies. Such bank accounts may include a **general client account*** into which the monies of a number of clients may be paid.
- * See definitions.
- 12.4 Clients' monies received by a professional accountant in public practice should be deposited without delay to the credit of a client account, or - if in the form of documents of title to money and documents of title which can be converted into money - be safeguarded against unauthorized use.
- 12.5 Monies may only be drawn from the client account on the instructions of the client.
- 12.6 Fees due from a client may be drawn from client's monies provided the client, after being notified of the amount of such fees, has agreed to such withdrawal.
- 12.7 Payments from a client account shall not exceed the balance standing to the credit of the client.
- 12.8 When it seems likely that the client's monies remain on client account for a significant period of time, the professional accountant in public practice should, with the concurrence of the client, place such monies in an interest bearing account within a reasonable time.
- 12.9 All interest earned on clients' monies should be credited to the client account.
- 12.10 Professional accountants in public practice should keep such books of account as will enable them, at any time, to establish clearly their dealings with clients' monies in general and the monies of each individual client in particular. A statement of account should be provided to the client at least once a year.

SECTION 13

Relations with Other Professional Accountants in Public Practice

Accepting New Assignments

- 13.1 The extension of the operations of a business undertaking frequently results in the formation of branches or subsidiary companies at locations where an **existing accountant*** does not practice. In these circumstances, the client or the existing accountant in consultation with the client may request a **receiving accountant*** practicing at those locations to perform such professional services as necessary to complete the assignment.
- * See definitions.
- 13.2 Referral of business may also arise in the area of special services or special tasks. The scope of the services offered by professional accountants in public practice continues to expand and the depth of knowledge which is needed to serve the public often calls for special skills. Since it is impracticable for any one professional accountant in public practice to acquire special expertise or experience in all fields of accountancy, some professional accountants in public practice have decided that it is

neither appropriate nor desirable to develop within their firms the complete range of special skills which may be required.

- 13.3 Professional accountants in public practice should only undertake such services which they can expect to complete with professional competence. It is essential therefore for the profession in general and in the interests of their clients that professional accountants in public practice be encouraged to obtain advice when appropriate from those who are competent to provide it.
- 13.4 An existing accountant without a particular skill may however be reluctant to refer a client to another professional accountant in public practice who may possess that skill, because of the fear of losing existing business to the other professional accountant in public practice. As a result, clients may be deprived of the benefit of advice which they are entitled to receive.
- 13.5 The wishes of the client should be paramount in the choice of professional advisers, whether or not special skills are involved. Accordingly, a professional accountant in public practice should not attempt to restrict in any way the client's freedom of choice in obtaining special advice, and when appropriate should encourage a client to do so.
- 13.6 The services or advice of a professional accountant in public practice having special skills may be sought in one or other of the following ways:
- (a) By the client
 - (i) After prior discussion and consultation with the existing accountant;
 - (ii) On the specific request or recommendation of the existing accountant; and
 - (iii) Without reference to the existing accountant; or
 - (b) By the existing accountant with due observance of the duty of confidentiality.
- 13.7 When a professional accountant in public practice is asked to provide services or advice, inquiries should be made as to whether the prospective client has an existing accountant. In cases where there is an existing accountant who will continue to provide professional services, the procedures set out in paragraphs 13.8-13.14 should be observed. If the appointment will result in another professional accountant in public practice being superseded, the procedures set out in paragraphs 13.15-13.26 should be followed.
- 13.8 The receiving accountant should limit the services provided to the specific assignment received by referral from the existing accountant or the client unless otherwise requested by the client. The receiving accountant also has the duty to take reasonable steps to support the existing accountant's current relationship with the client and should not express any criticism of the professional services of the existing accountant without giving the latter an opportunity to provide all relevant information.
- 13.9 A receiving accountant who is asked by the client to undertake an assignment of a type which is clearly distinct from that being carried out by the existing accountant or from that initially received by referral from the existing accountant or from the client, should regard this as a separate request to provide services or advice. Before accepting any appointments of this nature, the receiving accountant should advise the client of the professional obligation to communicate with the existing accountant and should immediately do so preferably in writing, advising of the approach made by the

client and the general nature of the request as well as seeking all relevant information, if any, necessary to perform the assignment.

- 13.10 Circumstances sometimes arise when the client insists that the existing accountant should not be informed. In this case, the receiving accountant should decide whether the client's reasons are valid. In the absence of special circumstances a mere disinclination by the client for communication with the existing accountant would not be a satisfactory reason.
- 13.11 The receiving accountant should:
- (a) Comply with the instructions received from the existing accountant or the client to the extent that they do not conflict with relevant legal or other requirements; and
 - (b) Ensure, insofar as it is practicable to do so, that the existing accountant is kept informed of the general nature of the professional services being performed.
- 13.12 When there are two or more other professional accountants in public practice performing professional services for the client concerned it may be appropriate to notify only the relevant professional accountant in public practice depending on the specific services being performed.
- 13.13 When appropriate the existing accountant, in addition to issuing instructions concerning referred business, should maintain contact with the receiving accountants and cooperate with them in all reasonable requests for assistance.
- 13.14 When the opinion of a professional accountant, other than the existing accountant, is sought on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions, the professional accountant should be alert to the possibility of the opinion creating undue pressure on the judgment and objectivity of the accountant. An opinion given without full and proper facts can cause difficulty to the receiving accountant if the opinion is challenged or the receiving accountant is subsequently appointed by the company. Accordingly, the professional accountant should seek to minimize the risk of giving inappropriate guidance by ensuring that he or she has access to all relevant information. When there is a request for an opinion in the above circumstances there is a requirement for communication with the existing accountant. It is important that the existing accountant, with the permission of the client, provide the receiving accountant with all requested relevant information about the client. With the permission of the client, the receiving accountant should also provide a copy of the final report to the existing accountant. If the client does not agree to these communications, then the engagement should ordinarily not be performed.

Superseding Another Professional Accountant in Public Practice

- 13.15 The proprietors of a business have an indisputable right to choose their professional advisers and to change to others should they so desire. While it is essential that the legitimate interests of the proprietors are protected, it is also important that a professional accountant in public practice who is asked to replace another professional accountant in public practice has the opportunity to ascertain if there are any professional reasons why the appointment should not be accepted. This cannot effectively be done without direct communication with the existing accountant. In the absence of a specific request, the existing accountant should not volunteer information about the client's affairs.
- 13.16 Communication enables a professional accountant in public practice to ascertain whether the circumstances in which a change in appointment is proposed are such that the appointment can properly be accepted and also whether there is a wish to

undertake the engagement. In addition, such communication helps to preserve the harmonious relationships which should exist between all professional accountants in public practice on whom clients rely for professional advice and assistance.

- 13.17 The extent to which an existing accountant can discuss the affairs of the client with the proposed professional accountant in public practice depend on:
- (a) Whether the client's permission to do so has been obtained; and/or
 - (b) The legal or ethical requirements relating to such disclosure which may vary by country.
- 13.18 The proposed professional accountant in public practice should treat in the strictest confidence and give due weight to any information provided by the existing accountant.
- 13.19 The information provided by the existing accountant may indicate, for example, that the ostensible reasons given by the client for the change are not in accordance with the facts. It may disclose that the proposal to make a change in professional accountants in public practice was made because the existing accountants stood their ground and properly carried out the duties as professional accountants in public practice despite opposition or evasion on an occasion on which important differences of principles or practice have arisen with the client.
- 13.20 Communication between the parties therefore serves:
- (a) To protect a professional accountant in public practice from accepting an appointment in circumstances where all the pertinent facts are not known.
 - (b) To protect the minority proprietors of a business who may not be fully informed of the circumstances in which the change is proposed.
 - (c) To protect the interests of the existing accountant when the proposed change arises from, or is an attempt to interfere with, the conscientious exercise of the existing accountant's duty to act as an independent professional.
- 13.21 Before accepting an appointment involving recurring professional services hitherto carried out by another professional accountant in public practice, the proposed professional accountant in public practice should:
- (a) Ascertain if the prospective client has advised the existing accountant of the proposed change and has given permission, preferably in writing, to discuss the client's affairs fully and freely with the proposed professional accountant in public practice.
 - (b) When satisfied with the reply received from prospective client, request permission to communicate with the existing accountant. If such permission is refused or the permission referred to in (a) above is not given, the proposed professional accountant in public practice should, in the absence of exceptional circumstances of which there is full knowledge, and unless there is satisfaction as to necessary facts by other means, decline the appointment.
 - (c) On receipt of permission, ask the existing accountant, preferably in writing:
 - (i) To provide information on any professional reasons which should be known before deciding whether or not to accept the appointment and, if there are such matters; and
 - (ii) To provide all the necessary details to be able to come to a decision.

- 13.22 The existing accountant, on receipt of the communication referred to in paragraph 13.21 (c) should forthwith:
- (a) Reply, preferably in writing, advising whether there are any professional reasons why the proposed professional accountant in public practice should not accept the appointment.
 - (b) If there are any such reasons or other matters which should be disclosed, ensure that the client has given permission to give details of this information to the proposed professional accountant in public practice. If permission is not granted, the existing accountant should report that fact to the proposed professional accountant in public practice.
 - (c) On receipt of permission from the client, disclose all information needed by the proposed professional accountant in public practice to be able to decide whether or not to accept the appointment, and discuss freely with the proposed professional accountant in public practice all matters relevant to the appointment of which the latter should be aware.
- 13.23 If the proposed professional accountant in public practice does not receive, within a reasonable time, a reply from the existing accountant and there is no reason to believe that there are any exceptional circumstances surrounding the proposed change, the proposed professional accountant in public practice should endeavor to communicate with the existing accountant by some other means. If unable to obtain a satisfactory outcome in this way, the proposed professional accountant in public practice should send a further letter, stating that there is an assumption that there is no professional reason why the appointment should not be accepted and that there is an intention to do so.
- 13.24 The fact that there may be fees owing to the existing accountant is not a professional reason why another professional accountant in public practice should not accept the appointment.
- 13.25 The existing accountant should promptly transfer to the new professional accountant in public practice all books and papers of the client which are or may be held after the change in appointment has been effected and should advise the client accordingly, unless the professional accountant in public practice has a legal right to withhold them.
- 13.26 Certain organizations, either because of legislative requirements or otherwise, call for submissions or tenders, e.g., competitive bids, in relation to professional services offered by accountants in public practice. In reply to a public advertisement or an unsolicited request to make a submission or submit a tender, a professional accountant in public practice should, if the appointment may result in the replacement of another professional accountant in public practice, state in the submission or tender that before acceptance the opportunity to contact the other professional accountant in public practice is required so that inquiries may be made as to whether there are any professional reasons why the appointment should not be accepted. If the submission or tender is successful, the existing accountant should then be contacted.

SECTION 14

Advertising and Solicitation

14.1 Whether or not **advertising*** and **solicitation*** by individual professional accountants in public practice are permitted is a matter for member bodies to determine based upon the legal, social and economic conditions in each country.

* See definitions.

14.2 When permitted, such advertising and solicitation should be aimed at informing the public in an objective manner and should be decent, honest, truthful and in good taste. Solicitation by the use of coercion or harassment should be prohibited.

14.3 Examples of activities which may be considered not to meet the above criteria include those that:

- (a) Create false, deceptive or unjustified expectations of favorable results;
- (b) Imply the ability to influence any court, tribunal, regulatory agency or similar body or official;
- (c) Consist of self-laudatory statements that are not based on verifiable facts;
- (d) Make comparisons with other professional accountants in public practice;
- (e) Contain testimonials or endorsements;
- (f) Contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived; and
- (g) Make unjustified claims to be an expert or specialist in a particular field of accountancy.

14.4 A professional accountant in public practice in a country where advertising is permitted should not seek to obtain an advantage by advertising in newspapers or magazines published or distributed in a country where advertising is prohibited. Similarly, a professional accountant in public practice in a country where advertising is prohibited should not advertise in a newspaper or magazine published in a country where advertising is permitted.

14.5 In situations where professional accountants in public practice in their international cross border activities violate the provisions of paragraph 14.4, contact should take place between the member body in the country in which the violation takes place and the member body of the home country of the professional accountant in public practice to ensure that the member body in the home country is made aware of such violation.

14.6 It is clearly desirable that the public should be aware of the range of services available from a professional accountant. Accordingly there is no objection to a member body communicating such information to the public on an institutional basis, *i.e.*, in the name of the member body.

Publicity by Professional Accountants in Public Practice in a Non-Advertising Environment

- 14.7 When advertising is not permitted, publicity by individual professional accountants in public practice is acceptable provided:
- (a) It has as its object the notification to the public or such sectors of the public as are concerned, of matters of fact in a manner that is not false, misleading or deceptive;
 - (b) It is in good taste;
 - (c) It is professionally dignified; and
 - (d) It avoids frequent repetition of, and any undue prominence being given to the name of the professional accountant in public practice.
- 14.8 The examples which follow are illustrative of circumstances in which publicity is acceptable and the matters to be considered in connection therewith subject always to the overriding requirements mentioned in the preceding paragraph.

Appointments and Awards

It is in the interests of the public and the accountancy profession that any appointment or other activity of a professional accountant in a matter of national or local importance, or the award of any distinction to a professional accountant, should receive publicity and that membership of the professional body should be mentioned. However, the professional accountant should not make use of any of the aforementioned appointments or activities for personal professional advantage.

Professional Accountants Seeking Employment or Professional Business

A professional accountant may inform interested parties through any medium that a partnership or salaried employment of an accountancy nature is being sought. The professional accountant should not, however, publicize for subcontract work in a manner which could be interpreted as seeking to procure professional business. Publicity seeking subcontract work may be acceptable if placed only in the professional press and provided that neither the professional accountant's name, address or telephone number appears in the publicity. A professional accountant may write a letter or make a direct approach to another professional accountant when seeking employment or professional business.

Directories

A professional accountant may be listed in a directory provided neither the directory itself nor the entry could reasonably be regarded as a promotional advertisement for those listed therein. Entries should be limited 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.

Books, Articles, Interviews, Lectures, Radio and Television Appearances

Professional accountants who author books or articles on professional subjects, may state their name and professional qualifications and give the name of their organization but shall not give any information as to the services that firm provides.

Similar provisions are applicable to participation by a professional accountant in a lecture, interview or a radio or television program on a professional subject. What professional accountants write or say, however, should not be promotional of themselves or their firm but should be an objective professional view of the topic

under consideration. Professional accountants are responsible for using their best endeavors to ensure that what ultimately goes before the public complies with these requirements.

Training Courses, Seminars, etc.

A professional accountant may invite clients, staff or other professional accountants to attend training courses or seminars conducted for the assistance of staff. Other persons should not be invited to attend such training courses or seminars except in response to an unsolicited request. The requirement should in no way prevent professional accountants from providing training services to other professional bodies, associations or educational institutions which run courses for their members or the public. However, undue prominence should not be given to the name of a professional accountant in any booklets or documents issued in connection therewith.

Booklets and Documents Containing Technical Information

Booklets and other documents bearing the name of a professional accountant and giving technical information for the assistance of staff or clients may be issued to such persons or to other professional accountants.

Other persons should not be issued with such booklets or documents except in response to an unsolicited request.

Staff Recruitment

Genuine vacancies for staff may be communicated to the public through any medium in which comparable staff vacancies normally appear. The fact that a job specification necessarily gives some detail as to one or more of the services provided to clients by the professional accountant in public practice is acceptable but it should not contain any promotional element. There should not be any suggestion that the services offered are superior to those offered by other professional accountants in public practice as a consequence of size, associations, or for any other reason.

In publications such as those specifically directed to schools and other places of education to inform students and graduates of career opportunities in the profession, services offered to the public may be described in a businesslike way.

More latitude may also be permissible in a section of a newspaper devoted to staff vacancies than would be allowed if the vacancy appeared in a prominent position elsewhere in a newspaper on the grounds that it would be most unlikely that a potential client would use such media to select a professional adviser.

Publicity on Behalf of Clients

A professional accountant in public practice may publicize on behalf of clients, primarily for staff. However, the professional accountant in public practice should ensure that the emphasis in the publicity is directed towards the objectives to be achieved for the client.

Brochures and Firm Directories

A professional accountant in public practice may issue to clients 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.

Stationery and Nameplates

Stationery of professional accountants in public practice should be of an acceptable professional standard and comply with the requirements of the law and of the member body concerned as to names of partners, principals and others who participate in the practice, use of professional descriptions and designatory letters, cities or countries where the practice is represented, logotypes, *etc.* The designation of any services provided by the practice as being of specialist nature should not be permitted. Similar provisions, where applicable, should apply to nameplates.

Newspaper Announcements

Appropriate newspapers or magazines may be used 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.

Such announcements should be limited to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the newspaper or magazine and number of insertions.

Inclusion of the Name of a Professional Accountant in Public Practice in a Document Issued by a Client

When a client proposes to publish a report by a professional accountant in public practice dealing with the client's existing business affairs or in connection with the establishment of a new business venture, the professional accountant in public practice should take steps to ensure that the context in which the report is published is not such as might result in the public being misled as to the nature and meaning of the report. In these circumstances, the professional accountant in public practice should advise the client that permission should first be obtained before publication of the document.

Similar consideration should be given to other documents proposed to be issued by a client containing the name of a professional accountant in public practice acting in an independent professional capacity. This does not preclude the inclusion of the name of a professional accountant in public practice in the annual report of a client.

When professional accountants in their private capacity are associated with, or hold office in, an organization, the organization may use their name and professional status on stationery and other documents. The professional accountant in public practice should ensure that this information is not used in such a way as might lead the public to believe that there is a connection with the organization in an independent professional capacity.

* See definitions.

PART C – APPLICABLE TO EMPLOYED PROFESSIONAL ACCOUNTANTS

The following sections contain guidance which is particularly relevant to professional accountants working in industry, commerce, the public sector or education. Professional accountants employed in public practice should be aware they may find that the principles set out below are also of application to their particular circumstances. If professional accountants employed in practice are in doubt as to the applicability of any particular guidance, they should seek assistance from their professional body.

SECTION 15

Conflict of Loyalties

- 15.1 Employed professional accountants owe a duty of loyalty to their employer as well as to their profession and there may be times when the two are in conflict. An employee's normal priority should be to support his or her organization's legitimate and ethical objectives and the rules and procedures drawn up in support of them. However, an employee cannot legitimately be required to:
- (a) Break the law;
 - (b) Breach the rules and standards of their profession;
 - (c) Lie to or mislead (including misleading by keeping silent) those acting as auditors to the employer; or
 - (d) Put their name to or otherwise be associated with a statement which materially misrepresents the facts.
- 15.2 Differences in view about the correct judgment on accounting or ethical matters should normally be raised and resolved within the employee's organization, initially with the employee's immediate superior and possibly thereafter, where disagreement about a significant ethical issue remains, with higher levels of management or non executive directors.
- 15.3 If employed accountants cannot resolve any material issue involving a conflict between their employers and their professional requirements they may, after exhausting all other relevant possibilities, have no other recourse but to consider resignation. Employees should state their reasons for doing so to the employer but their duty of confidentiality normally precludes them from communicating the issue to others (unless legally or professionally required to do so).
- 15.4 For further guidance as to the considerations involved see Section 2 - Resolution of Ethical Conflicts.

SECTION 16

Support for Professional Colleagues

- 16.1 A professional accountant, particularly one having authority over others, should give due weight for the need for them to develop and hold their own judgment in accounting matters and should deal with differences of opinion in a professional way.

SECTION 17

Professional Competence

- 17.1 A professional accountant employed in industry, commerce, the public sector or education may be asked to undertake significant tasks for which he or she has not had sufficient specific training or experience. When undertaking such work the professional accountant should not mislead the employer as to the degree of expertise or experience he or she possesses, and where appropriate expert advice and assistance should be sought.

SECTION 18

Presentation of Information

- 18.1 A professional accountant is expected to present financial information fully, honestly and professionally and so that it will be understood in its context.
- 18.2 Financial and non-financial information should be maintained in a manner that describes clearly the true nature of business transactions, assets or liabilities and classifies and records entries in a timely and proper manner, and professional accountants should do everything that is within their powers to ensure that this is the case.