

Agreed-in-Principle Text

January 2017

*International Ethics Standards Board
for Accountants®*

**Improving the Structure of the
Code of Ethics for Professional
Accountants—Phase 1 and
Proposed Revisions Pertaining to
Safeguards in the Code—Phase 1**



The agreed-in-principle text in this document was developed and approved by the [International Ethics Standards Board for Accountants® \(IESBA®\)](#). It contains:

- (a) Restructured provisions covered under Phase 1 of the IESBA's Structure of the Code project, which are presented using the new structure and drafting conventions for the Code; and
- (b) Revised and restructured provisions under Phase 1 of the IESBA's Safeguards project, which are also presented using the new structure and drafting conventions.

The IESBA will review the agreed-in-principle text for any necessary conforming amendments and matters of general consistency when it concludes the second phases of these projects. Any such refinements, which are not expected to change the substance of the agreed-in-principle text, will be shown in marked text and made available on the IESBA website soon after their approval.

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate the Code.

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

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GUIDE TO THE CODE

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

Purpose of the Code

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

How the Code is Structured

4. The Code contains the following material:
 - Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.
 - Part 2– *Professional Accountants in Business*, which sets out additional material that applies to professional accountants in business when performing professional activities. Professional Accountants in Business include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:
 - Commerce, industry or service.
 - The public sector.
 - Education.
 - The not-for-profit sector.
 - Regulatory or professional bodies.Professional accountants in public practice might also find Part 2 relevant to their particular circumstances.[∞]
 - Part 3 – *Professional Accountants in Public Practice*, which sets out additional material that applies to professional accountants in public practice when providing professional services.

[^] The Guide is a new feature and was included in the body of the Code in Structure ED-1. In response to feedback from respondents to Structure ED-1, the Guide has been repositioned.

[∞] This sentence might be subject to further revision as a result of the IESBA’s Revision of Part C project, in particular, the final text of the proposals set out in the January 2017 Exposure Draft, [Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice \(Applicability ED\)](#).

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- *International Independence Standards*, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows:
 - Part 4A – *Independence for Audits and Reviews*, which applies when performing audit or review engagements.
 - Part 4B – *Independence for Other Assurance Engagements*, which applies when performing assurance engagements that are not audit or review engagements.

The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics.

The *Glossary* contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term “audit engagements” refers to both audit and review engagements.

5. Each section of the Code is structured, where appropriate, as follows:
 - Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework.
 - Requirements – establish general and specific obligations with respect to the subject matter addressed.
 - Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to Use the Code

6. The Code requires a professional accountant to comply with the fundamental principles of professional ethics for professional accountants. Professional accountants include professional accountants in business and professional accountants in public practice.
7. All of the requirements and application material are to be read and applied in the context of complying with the fundamental principles, applying the conceptual framework and being independent when performing audit, review and other assurance engagements.
8. Proper application of a particular section of the Code requires knowledge and understanding of the relevant section and the entire text of Part 1. The requirements and application material set out in any subsection are to be read in conjunction with the requirements and application material set out in the section of which the subsection is a part.

Requirements

9. Requirements are designated with an “R” and, in most cases, include the word “shall.” The word “shall” in the Code imposes an obligation on a professional accountant or firm to comply with the specific provision in which “shall” has been used.
10. In some situations the Code provides a specific exception to a requirement. In such a situation, the provision is designated with an “R” but uses “may” or conditional wording.
11. When the word “may” is used in the Code it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. When the word “might” is used in the

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Code it denotes the possibility of a matter arising, an event occurring or a course of action being taken.

Application Material

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

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(SECTIONS 100 TO 199)

PART 2
PROFESSIONAL ACCOUNTANTS IN BUSINESS
(SECTIONS 200 TO 299)

PART 3
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE
(SECTIONS 300 TO 399)

INTERNATIONAL INDEPENDENCE STANDARDS
(PARTS 4A AND 4B)
PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS
(SECTIONS 400 TO 899)
PART 4B – INDEPENDENCE FOR OTHER ASSURANCE ENGAGEMENTS
(SECTIONS 900 TO 999)

GLOSSARY (ALL PROFESSIONAL ACCOUNTANTS)

**INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS
(including INTERNATIONAL INDEPENDENCE STANDARDS)**

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[∞] Placeholder for proposals in Structure ED-2.

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Glossary

PREFACE

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

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

Commented [IESBA1]: Preface

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

Section 100

Complying with the Code

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable accountants to meet their responsibility to act in the public interest. **Commented [IESBA2]: 100.1**
- 100.2 The requirements in the Code, designated with an "R," impose obligations. Application material, designated with an "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. **Commented [IESBA3]: New paragraph**
- R100.3** A professional accountant shall comply with the Code. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code. **Commented [IESBA4]: 100.1**
- 100.3 A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have requirements and guidance that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by laws or regulations. **Commented [IESBA5]: Preface**
- 100.3 A2 A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional body or a regulator. **Commented [IESBA6]: 100.11**
- R100.4** Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of Parts 4A and 4B, respectively. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:
- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
 - (b) Determine whether to report the breach to the relevant parties.
- 100.4 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional body, a regulator or an oversight authority. **Commented [IESBA8]: 100.10**

Section 110

The Fundamental Principles

110.1	<p>There are five fundamental principles of ethics for professional accountants:</p> <ul style="list-style-type: none"> (a) Integrity – to be straightforward and honest in all professional and business relationships. (b) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others. (c) Professional Competence and Due Care – to: <ul style="list-style-type: none"> (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and (ii) Act diligently and in accordance with applicable technical and professional standards. (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships. (e) Professional Behavior – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession. 	<p>Commented [IESBA9]: 100.5</p>
R110.2	<p>A professional accountant shall comply with each of the fundamental principles.</p>	<p>Commented [IESBA10]: NOCLAR</p>
110.2 A1	<p>The fundamental principles of professional ethics set out in the Code establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which all accountants are required to apply to assist them in achieving compliance with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.</p>	<p>Commented [IESBA11]: 100.5</p> <p>Commented [IESBA12]: 100.2, last sentence of 100.5</p>
110.3 A1	<p>A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:</p> <ul style="list-style-type: none"> • Others within the firm or employing organization. • Those charged with governance. • A professional body. • A regulator. • Legal counsel. <p>However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law, disassociate from the matter creating the conflict.</p>	<p>Commented [IESBA13]: 100.19, 100.20, 100.21</p> <p>Commented [IESBA14]: NOCLAR</p>
110.3 A2	<p>The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.</p>	<p>Commented [IESBA15]: 100.22</p>

Subsection 111 – Integrity

- R111.1** A professional accountant shall comply with the principle of integrity which requires an accountant to be straightforward and honest in all professional and business relationships. **Commented [IESBA16]: 110.1**
- 111.1 A1 Integrity implies fair dealing and truthfulness. **Commented [IESBA17]: 110.1**
- R111.2** A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information: **Commented [IESBA18]: 110.2**
- (a) Contains a materially false or misleading statement;
 - (b) Contains statements or information provided recklessly; or
 - (c) Omits or obscures required information where such omission or obscurity would be misleading.
- 111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2. **Commented [IESBA19]: 110.3**
- R111.3** When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information. **Commented [IESBA20]: 110.2**

Subsection 112 – Objectivity

- R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others. **Commented [IESBA21]: 120.1**
- R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity. **Commented [IESBA22]: 120.2, 280.4**

Subsection 113 – Professional Competence and Due Care

- R113.1** A professional accountant shall comply with the principle of professional competence and due care which requires an accountant to: **Commented [IESBA23]: 130.1**
- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) Act diligently and in accordance with applicable technical and professional standards.
- 113.1 A1 Serving clients and employing organization with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities. **Commented [IESBA24]: 130.2**
- 113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. **Commented [IESBA25]: 130.3**
- 113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. **Commented [IESBA26]: 130.4**

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

Commented [IESBA27]: 130.5

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

Commented [IESBA28]: 130.6

Subsection 114 – Confidentiality

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

Commented [IESBA29]: 140.1

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate an immediate or a close family member;

Commented [IESBA30]: 140.2

(b) Maintain confidentiality of information within the firm or employing organization;

Commented [IESBA31]: 140.4

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization;

Commented [IESBA32]: 140.3

(d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;

Commented [IESBA33]: 140.1(a)

(e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;

Commented [IESBA34]: 140.1(b)

(f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after the business or personal relationship has ended; and

Commented [IESBA35]: 140.6

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

Commented [IESBA36]: 140.5

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

Commented [IESBA37]: 140.6

114.2 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances when professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

Commented [IESBA38]: 140.7, NOCLAR

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

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

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- (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of an accountant in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

Commented [IESBA39]: NOCLAR

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

Commented [IESBA40]: 140.8

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

Subsection 115 – Professional Behavior

R115.1 A professional accountant shall comply with the principle of professional behavior which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Commented [IESBA41]: 150.1, 200.2, NOCLAR

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

Commented [IESBA42]: 150.1, NOCLAR

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

Commented [IESBA43]: 150.2, 250.2

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

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

Commented [IESBA44]: 250.2

Section 120

The Conceptual Framework

Introduction

120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodates the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition they deter an accountant from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

Commented [IESBA45]: 100.6

120.2 The conceptual framework specifies an approach for the professional accountant to:

Commented [IESBA46]: 100.6, 100.2

- (a) Identify threats to compliance with the fundamental principles;
- (b) Evaluate the threats identified; and
- (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

R120.3 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

Commented [IESBA47]: Derived from 100.2, 100.6, 100.7

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

Commented [IESBA48]: 100.3, 100.15

- (a) Part 2 – *Professional Accountants in Business*;
- (b) Part 3 – *Professional Accountants in Public Practice*; and
- (c) *International Independence Standards*, as follows:
 - (i) Part 4A – *Independence for Audits and Reviews*; and
 - (ii) Part 4B – *Independence for Other Assurance Engagements*.

[Paragraphs R120.4–120.4 A1 are reserved for proposed requirement and application material in the January 2017 [Applicability ED](#)]

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

- (a) Exercise professional judgment;
- (b) Remain alert for new information and to changes in facts and circumstances; and
- (c) Use the reasonable and informed third party test as described in paragraph 120.5 A1.

Commented [IESBA49]: 100.2, 100.7, 290.7

Commented [IESBA50]: Derived from 220.6, 310.6

Commented [IESBA51]: 100.7

Reasonable and Informed Third Party

120.5 A1 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably

Commented [IESBA52]: 100.7, 100.8

be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience, to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Identifying Threats

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

Commented [IESBA53]: Derived from 100.6, 290.1

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically, might also impact the identification of threats to compliance with the fundamental principles.

Commented [IESBA54]: 100.8, 100.16

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

Commented [IESBA55]: 100.6, 100.12

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

Commented [IESBA56]: 100.12

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

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

Commented [IESBA57]: 100.12

Evaluating Threats

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

Commented [IESBA58]: Derived from 100.6, 100.8

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

Commented [IESBA59]: 100.9, 290.11

120.7 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also impact the accountant's evaluation of the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

Commented [IESBA60]: 100.13, 100.14, 100.16, 200.9, 200.11, 200.12

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

Acceptable Level

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

Commented [IESBA61]: Glossary

Consideration of New Information or Changes in Facts and Circumstances

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

Commented [IESBA62]: 290.10

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

Commented [IESBA63]: New paragraph

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

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

Commented [IESBA64]: Derived from 290.10

Addressing Threats

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

Commented [IESBA65]: New paragraph

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;

- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or ending the specific professional activity.

Safeguards

120.10 A1 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Commented [IESBA66]: 100.9, 100.13

Actions to Eliminate Threats

120.10 A2 There are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the level of the threat to an acceptable level.

Commented [IESBA67]: New paragraph

Consideration of Significant Judgments Made and Overall Conclusions Reached

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

Commented [IESBA68]: New paragraph

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

Considerations for Audits, Reviews and Other Assurance Engagements

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

Commented [IESBA69]: First two sentences are new

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

Commented [IESBA70]: 290.6

120.12 A2 Parts 4A and 4B of the Code comprise the *International Independence Standards*. Parts 4A and 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent, when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence.

Commented [IESBA71]: 290.1, 290.7

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PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

[Placeholder for the restructured provisions for professional accountants in business that form part of Structure ED-2.]

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PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Section 300

Applying the Conceptual Framework – Professional Accountants in Public Practice

Introduction

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

Commented [IESBA72]: 200.1

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

Commented [IESBA73]: 100.3, 100.15, 290.1

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

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

Commented [IESBA74]: New paragraph

Requirements and Application Material

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

Commented [IESBA75]: New paragraph

[Paragraphs R300.5–300.5 A1 are reserved for proposed requirement and application material in the [Applicability ED](#)]

Identifying Threats

300.6 A1 Compliance with the fundamental principles might be threatened by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.5 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

Commented [IESBA76]: 200.1, 200.2, 200.4, 200.6, 200.7, 200.8

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.

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- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
 - A professional accountant having a close business relationship with a client.
 - A professional accountant having access to confidential information that might be used for personal gain.
 - A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.
- (b) Self-review Threats
- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
 - A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- (c) Advocacy Threats
- A professional accountant promoting the interests of, or shares in, a client.
 - A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
 - A professional accountant lobbying in favor of legislation on behalf of a client.
- (d) Familiarity Threats
- A professional accountant having a close or immediate family member who is a director or officer of the client.
 - A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
 - An audit team member having a long association with the audit client.
- (e) Intimidation Threats
- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
 - A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
 - A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
 - A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

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

Commented [IESBA77]: Derived from 200.11

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

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

Commented [IESBA78]: 200.10, 200.11

The Client and its Operating Environment

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

Commented [IESBA79]: 200.3, 200.11

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

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

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

Commented [IESBA80]: 200.15

- The client requires appropriate persons other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Firm and its Operating Environment

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

Commented [IESBA81]: 100.14

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.

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- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

Consideration of New Information or Changes in Facts and Circumstances

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

Commented [IESBA82]: New paragraph

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

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

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

Commented [IESBA83]: New paragraph

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

Addressing Threats

Examples of Safeguards

300.8 A1 Section 120 sets out requirements and application material for addressing threats. Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

Commented [IESBA84]: 200.13

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having a professional accountant who was not a member of the team review the work performed or advise as necessary might address self-review threats.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review and familiarity threats.

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- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy or familiarity threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address self-interest and advocacy threats.
- Separation of teams when dealing with matters of a confidential nature might address self-interest threats.

Communicating with Those Charged with Governance

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

Commented [IESBA85]: 100.25

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

Commented [IESBA86]: 100.25

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

300.9 A2 If a professional accountant communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance might also be necessary to ensure they are adequately informed.

Commented [IESBA87]: 100.25

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

Commented [IESBA88]: 100.26 NOCLAR

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters do not need to be communicated again with those same person(s) in their governance role.

Commented [IESBA89]: 100.26 NOCLAR

Section 310

Conflicts of Interest

Introduction

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

Commented [IESBA90]: New paragraph

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

Commented [IESBA91]: 220.1

- (a) A professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
- (b) The interests of a professional accountant with respect to a particular matter and the interests of the client for whom the accountant provides a professional service related to that matter are in conflict.

310.3 Section 310 sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a professional accountant provides an audit, review or other assurance service, independence is also required in accordance with *International Independence Standards*.

Commented [IESBA92]: 220.1

Requirements and Application Material

General

R310.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

Commented [IESBA93]: 220.1

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

Commented [IESBA94]: 220.2

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint

venture or similar interest with a major competitor of the client.

- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict Identification

R310.5 Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

Commented [IESBA95]: 220.6, 220.3

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

310.5 A1 An effective conflict identification process assists a professional accountant when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the accountant being able to address threats created by the conflict of interest.

310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

Commented [IESBA96]: 220.7

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

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

Commented [IESBA97]: New paragraph

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

Commented [IESBA98]: 220.6

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

Commented [IESBA99]: 220.6

Network Firms

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

Commented [IESBA100]: 220.8

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

Commented [IESBA101]: 220.8

- The nature of the professional services provided.

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- The clients served by the network.
- The geographic locations of all relevant parties.

Applying the Conceptual Framework to Threats Created by Conflicts of Interest

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

Commented [IESBA102]: 220.3, 220.9

310.8 A2 Factors that are relevant in evaluating the level of any threats created by conflicts of interest include measures that prevent unauthorized disclosure of confidential information, when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict, including:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the firm.
- Separating confidential information physically and electronically.

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

Commented [IESBA103]: 220.10

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

Disclosure and Consent

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

Commented [IESBA104]: 220.11

310.9 A1 When determining whether specific disclosure and explicit consent are necessary, applying the conceptual framework requires the professional accountant to exercise professional judgment and consider all the circumstances that create a conflict of interest. Factors to consider include:

Commented [IESBA105]: 220.11

- (a) The parties that might be affected.
- (b) The nature of the issues that might arise.
- (c) The potential for the particular matter to develop in an unexpected manner.

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

Commented [IESBA106]: 220.11

- General disclosure to clients of circumstances where, as is common commercial practice, the professional accountant does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector) in

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order for the client to provide general consent accordingly. For example, an accountant might make general disclosure in the standard terms and conditions for the engagement.

- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the professional accountant has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

310.9 A3 It is generally necessary:

Commented [IESBA107]: 220.11

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

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

Commented [IESBA108]: 220.13

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

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

Commented [IESBA109]: 220.12

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

Confidentiality

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

Commented [IESBA110]: 220.4

310.11 A1 Subsection 114, sets out requirements and application material relevant to threats to compliance with the principle of confidentiality that might be created in such a situation.

Commented [IESBA111]: 220.4

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

Commented [IESBA112]: 220.14

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;

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- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

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

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

Commented [IESBA113]: 220.14

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

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

Commented [IESBA114]: 220.14

Section 320

Professional Appointments

Introduction

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

Commented [IESBA115]: New paragraph

320.2 The acceptance of a new client or engagement or changes in circumstances in an existing engagement might create self-interest threats.

Commented [IESBA116]: 210.1 NOCLAR

320.3 Section 320 sets out specific requirements and application material relevant to applying the conceptual framework to professional appointments.

Commented [IESBA117]: New paragraph

Requirements and Application Material

Client and Engagement Acceptance

320.4 A1 In some circumstances, acceptance of a new client relationship might create threats to compliance with the principles of integrity or professional behavior. This might arise, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such threats include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.

Commented [IESBA118]: 210.1, NOCLAR

320.4 A2 Factors that are relevant in evaluating the level of any threat created by accepting a new client include:

Commented [IESBA119]: 210.2 NOCLAR

- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
- The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

320.5 A1 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

Commented [IESBA120]: 210.6 extant, 210.5 NOCLAR

320.5 A2 Factors that are relevant in evaluating the level of any threat created by accepting a new engagement include:

Commented [IESBA121]: 210.7 extant, 210.6 NOCLAR

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matters.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

- 320.5 A3 Examples of actions that might be safeguards to address threats created by accepting a new engagement include:
- Assigning sufficient engagement personnel with the necessary competencies.
 - Agreeing on a realistic time frame for the performance of the engagement.
 - Using experts where necessary.

Commented [IESBA122]: 210.7, NOCLAR

Changes in a Professional Appointment

R320.6 A professional accountant shall determine whether there are any reasons for not accepting an engagement when the accountant:

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

Commented [IESBA123]: 210.9, NOCLAR

Commented [IESBA124]: 210.9, NOCLAR

Commented [IESBA125]: 210.12 extant, 210.11 NOCLAR

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

Commented [IESBA126]: 210.9 NOCLAR

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

Commented [IESBA127]: 210.12, NOCLAR

320.6 A3 A factor that is relevant in evaluating the level of any threats created by changes in appointments is whether tenders state that, before accepting the engagement, contact with the existing or predecessor accountant will be requested. This contact gives the proposed accountant the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

Commented [IESBA128]: 210.11, NOCLAR

320.6 A4 Examples of actions that might be safeguards to address threats created by changes in professional appointments include:

Commented [IESBA129]: 210.11, NOCLAR

- Asking the existing or predecessor accountant to provide any known information which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment might not fully reflect the facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

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

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R320.8 If unable to communicate with the existing or predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats. **Commented [IESBA130]:** 210.14, NOCLAR

R320.9 When an existing or predecessor accountant is asked to respond to a communication from a proposed accountant, the existing or predecessor accountant shall:

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

Commented [IESBA131]: 210.14, NOCLAR

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

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

Commented [IESBA132]: 210.13, NOCLAR

320.9 A2 Circumstances where a professional accountant is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.2 A1 of the Code. **Commented [IESBA133]:** 210.13, NOCLAR

Changes in Audit or Review Appointments

R320.10 In the case of an audit or review of financial statements, a professional accountant shall request the existing or predecessor accountant to provide known information regarding any facts or other information of which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

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

Commented [IESBA134]: 210.14, NOCLAR

Client and Engagement Continuance

R320.11 For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement. **Commented [IESBA135]:** 210.5, 210.4 NOCLAR

320.11 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, if they were known earlier, would have caused the professional accountant **Commented [IESBA136]:** 210.4 NOCLAR

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to decline the engagement. For example, such a threat might be created by improper earnings management or balance sheet valuations.

Using the Work of an Expert

R320.12 When a professional accountant intends to use the work of an expert, the accountant shall determine whether the use is warranted.

Commented [IESBA137]: 210.8, NOCLAR

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

Commented [IESBA138]: 210.8, NOCLAR

Section 321

Second Opinions

Introduction

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

Commented [IESBA139]: New paragraph

321.2 Providing a second opinion to an entity that is not an existing client might create self-interest or other threats. For example, there might be a threat to compliance with the principle of professional competence and due care if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence.

Commented [IESBA140]: 230.1

321.3 Section 321 sets out specific requirements and application material relevant to applying the conceptual framework to providing a second opinion.

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Requirements and Application Material

General

321.4 A professional accountant might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client.

Commented [IESBA142]: 230.1

R321.5 If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing or predecessor accountant, the accountant shall determine whether the accountant may provide the second opinion sought.

Commented [IESBA143]: 230.3

321.5 A1 Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that are not an existing client is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

Commented [IESBA144]: 230.1

321.5 A2 Examples of actions that might be safeguards to address the threats created by providing a second opinion include:

Commented [IESBA145]: 230.2

- With the client's permission, obtaining information from the existing or predecessor accountant.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the existing or predecessor accountant with a copy of the opinion.

Section 330

Fees and Other Types of Remuneration

Introduction

- 330.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. **Commented [IESBA146]:** New paragraph
- 330.2 The level and nature of fee and other remuneration arrangements might create self-interest threats. **Commented [IESBA147]:** New paragraph
- 330.3 Section 330 sets out specific application material relevant to applying the conceptual framework to fees and other types of remuneration. **Commented [IESBA148]:** New paragraph

Application Material

Level of Fees

- 330.4 A1 The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards. **Commented [IESBA149]:** 240.1
- 330.4 A2 A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards. **Commented [IESBA150]:** 240.1
- 330.4 A3 Factors that are relevant in evaluating the level of any threats created by the level of fees quoted include: **Commented [IESBA151]:** 240.2
- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
 - Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.
- 330.4 A4 Examples of actions that might be safeguards to address threats set out in paragraph 330.4 A2 include: **Commented [IESBA152]:** 240.2
- Adjusting the level of fees or the scope of the engagement.
 - Assigning a professional with appropriate expertise to review the work performed.

Contingent Fees

- 330.5 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances. **Commented [IESBA153]:** 240.3
- 330.5 A2 Factors that are relevant in evaluating the level of threats created by contingent fees include: **Commented [IESBA154]:** 240.3
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis for determining the fee.
 - An advance written agreement with the client on the basis of remuneration.

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- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality control policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

Commented [IESBA155]: 240.3

330.5 A3 An example of an action that might be a safeguard to address threats created by contingent fees is having a review by an independent third party of the work performed by the professional accountant.

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330.5 A4 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in Parts 4A and 4B, respectively.

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Referral Fees or Commissions

330.6 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee or receives a commission relating to a client. For example, such referral fees or commissions include:

Commented [IESBA158]: 240.5

- A fee paid to another accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.
- A fee received for referring a continuing client to another accountant or other expert where the existing accountant does not provide the specific professional service required by the client.
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

330.7 A1 A factor that is relevant in evaluating the level of threats set out in paragraph 330.6 A1 is whether the professional accountant has disclosed to the client any referral fee paid to, or received from, another accountant.

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330.8 A1 An example of an action that might be a safeguard to address threats created by the receipt of a commission is to obtain advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client.

Commented [IESBA160]: 240.7

Purchase or Sale of a Firm

330.9 A1 A professional accountant may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

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Section 340

Gifts and Hospitality

Introduction

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

Commented [IESBA162]: New paragraph

340.2 An offer of gifts or hospitality from a client might create self-interest, familiarity or intimidation threats.

Commented [IESBA163]: 260.1

340.3 Section 340 sets out specific application material relevant to applying the conceptual framework to offers of gifts and hospitality.

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Application Material

340.4 A1 An offer of gifts or hospitality from a client to a professional accountant, or an immediate or close family member of an accountant, might create:

Commented [IESBA165]: 260.1

- A self-interest or familiarity threat to compliance with the principle of objectivity if the offer is accepted.
- An intimidation threat if the acceptance of the offer might be made public.

340.4 A2 The level of any threat created by an offer of a gift or hospitality will depend on the nature, value and intent of the offer, and whether, taking into account the reasonable and informed third party test:

Commented [IESBA166]: 260.2

- The offer of gifts or hospitality would be considered to be trivial and inconsequential; or
- The offer of gifts or hospitality is made in the normal course of business without intent to influence decision making or to obtain information

Section 350

Custody of Client Assets

Introduction

- 350.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. **Commented [IESBA167]:** New paragraph
- 350.2 Holding client assets creates threats, for example, a self-interest threat to compliance with the principles of professional behavior and objectivity. **Commented [IESBA168]:** 270.2
- 350.3 Section 350 sets out specific requirements and application material relevant to applying the conceptual framework to assuming custody of client money or other assets. **Commented [IESBA169]:** New paragraph

Requirements and Application Material

General

- R350.4** A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken. **Commented [IESBA170]:** 270.1
- R350.5** As part of client and engagement acceptance procedures related to assuming custody of client money or assets, a professional accountant shall:
- (a) Make inquiries about the source of the assets; and
 - (b) Consider related legal and regulatory obligations.
- 350.5 A1 Inquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 360 would apply. **Commented [IESBA172]:** 270.3
- R350.6** A professional accountant entrusted with money or other assets belonging to others shall: **Commented [IESBA173]:** NOCLAR **Commented [IESBA174]:** 270.2
- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
 - (b) Keep the assets separately from personal or firm assets;
 - (c) Use the assets only for the purpose for which they are intended; and
 - (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

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INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS

Section 400

Applying the Conceptual Framework to Independence for Audits and Reviews

Introduction

400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements

Commented [IESBA175]: 290.4

400.2 Part 4A applies to both audit and review engagements. The term(s) “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client and review engagement report.

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400.3 In Part 4A, the term “professional accountant” refers to professional accountants in public practice and their firms.

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400.4 *International Standard on Quality Control 1* (ISQCs)¹, requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by relevant ethics requirements. *International Standards on Auditing* (ISAs) and *International Standards on Review Engagements* (ISREs) establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4A do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, individual professional accountants remain responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.

Commented [IESBA178]: 290.12

400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

Commented [IESBA179]: 290.6

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit team member’s, integrity, objectivity or professional skepticism has been compromised.

In Part 4A, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. Part 4A sets out specific requirements and application material

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¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

400.7 Part 4A describes facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence. Firms are required to apply the conceptual framework to threats to independence as well as to threats to compliance with the fundamental principles that are linked to independence. Part 4A describes potential threats, and safeguards or other actions that might be appropriate to address any such threats. It also identifies some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Commented [IESBA181]: 290.5, 290.8, 290.9, 290.100

Public Interest Entities

400.8 Some of the requirements and application material set out in Part 4A reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

Commented [IESBA182]: 290.25, 290.26

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

Reports that Include a Restriction on Use and Distribution

400.9 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in Part 4A (excluding Sections 800) may be modified as provided in Section 800.

Commented [IESBA183]: 290.2

Assurance Engagements other than Audits and Reviews

400.10 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence Standards for Other Assurance Engagements*.

Commented [IESBA184]: 290.1 last sentence

Requirements and Application Material

General

R400.11 A firm performing an audit engagement shall be independent.

Commented [IESBA185]: 280.2

R400.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

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[Paragraphs 400.13 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in Part 4A include related entities over which the client

Commented [IESBA187]: 290.27

has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

R400.30 Independence as required by this Part 4A shall be maintained during both:

Commented [IESBA188]: 290.30

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

400.30 A1 The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

Commented [IESBA189]: 290.30

R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

Commented [IESBA190]: 290.31

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

R400.32 If a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the audit team begins to perform audit services, and the service would not be permitted during the engagement period, the firm shall evaluate the level of the threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the audit engagement if the threats are addressed.

Commented [IESBA191]: 290.32

400.32 A1 Examples of actions that might be safeguards to address threats to independence include:

Commented [IESBA192]: 290.32

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

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 Paragraph R300.9 set out requirements with respect to communicating with those charged with governance.

400.40 A1 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of

Commented [IESBA193]: 290.28

the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available or capable of being applied; and
- (c) Take appropriate action.

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

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct.

Commented [IESBA194]: 290.14

R400.51 A network firm shall be independent of the audit clients of the other firms within the network as required by Part 4A.

Commented [IESBA195]: 290.13

400.51 A1 The independence requirements in Part 4A that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

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R400.52 When associated with a larger structure of other firms and entities, a firm shall:

Commented [IESBA197]: 290.15

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

(a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);

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(b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);

Commented [IESBA199]: 290.17

(c) The entities within the structure share common quality control policies and procedures. (Ref: Para. 400.53 A4);

Commented [IESBA200]: 290.18

(d) The entities within the structure share a common business strategy. (Ref: Para. 400.52 A5);

Commented [IESBA201]: 290.19

(e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or

Commented [IESBA202]: 290.20

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- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9) **Commented [IESBA203]: 290.23**
- 400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network in addition to those arrangements set out in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. **Commented [IESBA204]: 290.14**
- 400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)). **Commented [IESBA205]: 290.16**
- 400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53 (b)). **Commented [IESBA206]: 290.17**
- 400.53 A4 Common quality control policies and procedures are those designed, implemented and monitored across the larger structure. (Ref: Para. R400.53 (c)). **Commented [IESBA207]: 290.18**
- 400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R400.53 (d)). **Commented [IESBA208]: 290.19**
- 400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with its firm name when a partner of the firm signs an audit report. (Ref: Para. R400.53 (e)). **Commented [IESBA209]: 290.20**
- 400.53A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)). **Commented [IESBA210]: 290.21**
- 400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
 - Partners and other personnel.
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
 - Audit methodology or audit manuals.
 - Training courses and facilities. (Ref: Para. R400.53(f)).
- 400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.
- Commented [IESBA211]: 290.23**
- Commented [IESBA212]: 290.24**

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- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.52(f)).

R400.54 If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

Commented [IESBA213]: 290.22

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

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[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audits and Reviews

R400.60 A firm shall document conclusions regarding compliance with this Part and the substance of any relevant discussions that support those conclusions. In particular:

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- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat requires significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgments when forming conclusions regarding compliance with Part 4A. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

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[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

400.70 A1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence, and therefore, to the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

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R400.71 In the circumstances set out in paragraph 400.70 A1,

Commented [IESBA219]: 290.33

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threats, might affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and.

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- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

Commented [IESBA220]: 290.34

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

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

Commented [IESBA221]: 290.33, 290.34

400.72 A2 Factors that are relevant in evaluating the level of any threats created by mergers and acquisitions include:

Commented [IESBA222]: 290.34

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

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

Commented [IESBA223]: 290.35

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

Commented [IESBA224]: 290.35(c)

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

R400.74 The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures

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within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(a) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create threats that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

R400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create threats such that objectivity would be compromised.

Commented [IESBA226]: 290.38

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of a Provision of Independence for Audits and Reviews

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional body, regulator or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner;
 - (ii) Those with responsibility for the policies and procedures relating to independence;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;

Commented [IESBA227]: 290.40

Commented [IESBA228]: 290.41

Commented [IESBA229]: 290.42

AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
- (i) Whether to end the audit engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

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Commented [IESBA231]: 290.43

In making the determination in paragraph R400.80(e)(ii), the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

Commented [IESBA232]: 290.43

400.80 A1 A breach of a provision of Part 4A might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit engagement because of the breach.

Commented [IESBA233]: 290.39

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

Commented [IESBA234]: 290.42

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit engagement.
- Whether an audit team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements.
- If the breach relates to an audit team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

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

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- o Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.81 If the firm determines that it cannot take action to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

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R400.82 If the firm determines that it can take action to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

Commented [IESBA237]: 290.46

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

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

Commented [IESBA238]: New paragraph

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

Commented [IESBA239]: 290.47

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.

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Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.

Commented [IESBA241]: 290.48

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R400.87 The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and
- (b) Discuss the matter with those charged with governance.

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Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

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

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R400.89 If the firm continues with the audit engagement, it shall also document the conclusion that, in the firm's professional judgment, objectivity has not been compromised and why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

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Section 410

Fees

Introduction

410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA245]: New paragraph

410.2 The nature and level of fees or other types of remuneration might create self-interest or intimidation threats.

Commented [IESBA246]: Derived from 290.215

410.3 Section 410 sets out specific requirements and application material relevant to applying the conceptual framework to fees or other types of remuneration.

Commented [IESBA247]: New paragraph

Requirements and Application Material

Fees – Relative Size

410.4 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat. Factors that are relevant in evaluating the level of those threats include:

Commented [IESBA248]: 290.215

- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client qualitatively and/or quantitatively to the firm.

410.4 A2 Examples of actions that might be safeguards to address threats created by the firm's dependence on fees charged to the audit client include:

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- Increasing the client base in the firm to reduce dependence on the audit client.
- External quality control reviews.
- Consulting a third party, such as a professional or regulatory body or a professional accountant, on key audit judgments.

410.5 A1 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

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410.5 A2 Factors that are relevant in evaluating the level of any threat created by dependence of one partner or office on fees generated from an audit client include:

Commented [IESBA251]: 290.216

- The significance of the client qualitatively and/or quantitatively to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.5 A3 Examples of actions that might be safeguards to address threats created by fees generated from an audit client include:

Commented [IESBA252]: 290.216

- Increasing the client base of the partner or the office to reduce dependence on the audit client.
- Having a professional accountant review the work as necessary.

- Regular independent internal or external quality reviews of the engagement.

Audit Clients that are Public Interest Entities

R410.6 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

Commented [IESBA253]: 290.217

- (a) Disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and
- (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:
 - (i) Prior to the audit opinion being issued on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
 - (ii) After the audit opinion on the second year's financial statements has been issued, and before the audit opinion being issued on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body performs a review of the second year's audit that is equivalent to an engagement quality control review ("a post-issuance review").

R410.7 When the total fees described in paragraph R410.6 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.

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R410.8 If the fees described in paragraph R410.6 continue to exceed 15%, the firm shall each year:

Commented [IESBA255]: 290.217

- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.6; and
- (b) Comply with paragraphs R410.6(b) and R410.7.

Fees – Overdue

410.9 A1 A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also be relevant to situations where such unpaid fees exist.

Commented [IESBA256]: 290.218

410.9 A2 Examples of actions that might be safeguards to address threats created by overdue fees include:

Commented [IESBA257]: 290.218

- Obtaining partial payment of overdue fees.
- Having an additional professional accountant, who did not take part in the audit engagement, or review the work performed.

R410.10 When a significant part of fees due from an audit client remains unpaid for a long time, a firm shall determine:

Commented [IESBA258]: 290.218

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm not to accept appointment or continue the audit engagement because of the significance of the overdue fees.

Contingent Fees

410.11 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

Commented [IESBA259]: 290.219

R410.12 A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

Commented [IESBA260]: 290.220

R410.13 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

Commented [IESBA261]: 290.221

- (a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

410.14 A1 Paragraphs R410.12 and R410.13 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if such contingent fee arrangements are not precluded when providing a non-assurance service to an audit client, a self-interest threat might still be created.

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410.14 A2 Factors that are relevant in evaluating the level of such threats include:

Commented [IESBA263]: 290.222

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.14 A3 Examples of actions that might be safeguards to address threats created by a contingent fee include:

Commented [IESBA264]: 290.222

- Having a professional accountant review the relevant audit work as necessary.
- Using professionals who are not members of the audit team to perform the non-assurance service.

Section 411

Compensation and Evaluation Policies

Introduction

411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA265]: New paragraph

411.2 A firm's evaluation or compensation policies might create self-interest threats.

Commented [IESBA266]: 290.223

411.3 Section 411 sets out specific requirements and application material relevant to applying the conceptual framework to compensation and evaluation policies.

Commented [IESBA267]: New paragraph

Requirements and Application Material

411.4 A1 When an audit team member for a particular audit client is evaluated on or compensated for selling non-assurance services to that audit client, the level of the self-interest threat will depend on:

Commented [IESBA268]: 290.223

- (a) What proportion of the compensation or evaluation is based on the sale of such services;
- (b) The role of the individual on the audit team; and
- (c) Whether the sale of such non-assurance services influences promotion decisions.

411.4 A2 An example of an action that might be a safeguard to address threats created by compensation and evaluation policies is having a professional accountant review the work of the audit team member.

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Actions that might eliminate those threats include:

- Revising the compensation plan or evaluation process for that individual.
- Removing that individual from the audit team.

R411.5 A firm shall not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

Commented [IESBA270]: 290.224

Section 420

Gifts and Hospitality

Introduction

- 420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 420.2 Accepting gifts or hospitality from an audit client might create self-interest, familiarity or other threats.
- 420.3 Section 420 sets out a specific requirement relevant to applying the conceptual framework to offers of gifts and hospitality.

Commented [IESBA271]: New paragraph

Commented [IESBA272]: 290.225

Requirement

- R420.4 A firm, a network firm or an audit team member shall not accept gifts or hospitality from an audit client, unless the value is trivial and inconsequential.

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Section 430

Actual or Threatened Litigation

Introduction

430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

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430.2 When litigation occurs, or appears likely, between an audit client and the firm, a network firm or an audit team member, self-interest and intimidation threats are created.

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430.3 Section 430 sets out specific application material relevant to applying the conceptual framework to such actual or threatened litigation.

Commented [IESBA276]: New paragraph

Application Material

430.4 A1 The relationship between client management and audit team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. The adversarial positions which might result from actual or threatened litigation might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

Commented [IESBA277]: 290.226

430.4 A2 Factors that are relevant in evaluating the level of such threats include:

Commented [IESBA278]: 290.26

- The materiality of the litigation.
- Whether the litigation relates to a prior audit engagement.

430.4 A3 An example of an action that might be a safeguard to address threats created by actual or threatened litigation is to have a professional review the work performed.

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If the litigation involves an audit team member, an action that might eliminate the threat is removing that individual from the audit team.

Section 510

Financial Interests

Introduction

510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA280]: New paragraph

510.2 Holding a financial interest in an audit client might create a self-interest threat.

Commented [IESBA281]: 290.102

510.3 Section 510 sets out specific requirements and application material relevant to applying the conceptual framework to financial interests.

Commented [IESBA282]: New paragraph

Requirements and Application Material

General

510.4 A1 A financial interest might be held directly or held indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or the ability to influence its investment decisions, the Code defines that financial interest to be indirect.

Commented [IESBA283]: 290.103

510.5 A1 Section 510 contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Commented [IESBA284]: 290.101

510.6 A1 Factors that are relevant in evaluating the level of threats created by holding financial interests in an audit client include:

Commented [IESBA285]: 290.102

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

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

R510.7 Subject to paragraph R510.8, a direct financial interest or a material indirect financial interest in the audit client shall not be held by:

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

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Commented [IESBA287]: 290.104

Commented [IESBA288]: 290.108

Commented [IESBA289]: 290.110

510.7 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner

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is located in a different office from that of the other members of the audit team, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.8 As an exception to paragraph R510.7, an immediate family member identified in subparagraphs 510.7(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

Commented [IESBA291]: 290.111

- (a) The family member received the financial interest because of employment rights (for example, through pension or share option plans; and, when necessary, the firm addresses the threats created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

R510.9 When an entity has a controlling interest in an audit client and the audit client is material to the entity, neither the firm, nor a network firm, nor an audit team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

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Financial Interests Held as Trustee

R510.10 Paragraph R510.7 shall also apply to a financial interest in an audit client held in a trust for which the firm, network firm or individual acts as trustee, unless:

Commented [IESBA293]: 290.114

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

Financial Interests in Common with the Audit Client

R510.11 (a) A firm, or a network firm, or an audit team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:

Commented [IESBA294]: 290.112

- (i) The financial interests are immaterial to the firm, the network firm, the audit team member and that individual's immediate family member and the audit client, as applicable; or
- (ii) The audit client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R510.11(a) can become an audit team member, the individual or that individual's immediate family member shall either:

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

Financial Interests Received Unintentionally

R510.12 If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section:

Commented [IESBA296]: 290.116

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

Financial Interests – Other circumstances

R510.13 In the following circumstances related to financial interests, the firm shall apply the conceptual framework set out in Section 120:

(a) If an audit team member knows that a close family member has a direct or material indirect financial interest in the audit client. (Ref: Para. 510.13 A1).

Commented [IESBA297]: 290.105

(b) If a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.

Commented [IESBA298]: 290.107

(c) If an audit team member, or any of that individual's immediate family, or a firm or a network firm, has a financial interest in an entity and a director or officer or controlling owner of the audit client is also known to have a financial interest in the same entity. (Ref: Para. 510.13 A4).

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(d) If an audit team member knows that a financial interest in the audit client is held by other individuals including:

Commented [IESBA300]: 290.115

(i) Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.7, or their immediate family members.

(ii) Individuals with a close personal relationship with an audit team member. (Ref: Para. 510.13 A7).

510.13 A1 A self-interest threat might be created if an audit team member has a close family member who the audit team member knows has a direct or material indirect financial interest in the audit client. (Ref: Para. R510.13(a)).

Commented [IESBA301]: 290.105

510.13 A2 Factors that are relevant in evaluating the level of such a threat include:

Commented [IESBA302]: 290.105

- The nature of the relationship between the audit team member and the close family member.
- The materiality of the financial interest to the close family member.

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- Whether the financial interest is direct or indirect.

510.13 A3 An example of an action that might be a safeguard to address threats created by having a financial interest as set out in paragraph R510.13(a) is having a professional accountant review the work of the audit team member.

Commented [IESBA303]: 290.106

Actions that might eliminate those threats include:

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

510.13 A4 Self-interest, familiarity, or intimidation threats might be created if an audit team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity. (Ref: Para. R510.13(c)).

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510.13 A5 Factors that are relevant in evaluating the level of such threats include:

Commented [IESBA305]: 290.113

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

510.13 A6 An example of an action that might be a safeguard to address threats created by having a financial interest set out in paragraph R510.13(c) is having a professional accountant review the work of the audit team member.

Commented [IESBA306]: 290.113

An action that might eliminate those threats is removing the audit team member with the financial interest from the audit team.

510.13 A7 Factors that are relevant in evaluating the level of threats created by the interests set out in paragraph R510.13(d) include:

Commented [IESBA307]: 290.115

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

510.13 A8 Examples of actions that might be safeguards to address threats created by a financial interest set out in paragraph R510.13(d) include:

Commented [IESBA308]: 290.115

- Excluding the audit team member from any significant decision-making concerning the audit engagement.
- Having a professional accountant review the work of the audit team member.

An action to eliminate those threats is removing the audit team member with the personal relationship from the audit team.

Section 511

Loans and Guarantees

Introduction

511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

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511.2 A loan or a guarantee of a loan between an audit client and a firm, a network firm, an audit team member, or any of that individual's immediate family might create self-interest threats.

Commented [IESBA310]: 290.102

511.3 Section 511 sets out specific requirements and application material relevant to applying the conceptual framework to loans and guarantees.

Commented [IESBA311]: New paragraph

Requirements and Application Material

General

511.4 A1 Section 511 contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA312]: 290.101

Loans and Guarantees with an Audit Client

R511.5 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not make or guarantee a loan to an audit client unless the loan or guarantee is immaterial to:

Commented [IESBA313]: 290.121

(a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and

(b) The client.

Loans and Guarantees with an Audit Client that is a Bank or Similar Institution

R511.6 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Commented [IESBA314]: 290.117

511.6 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.

511.6 A2 If a loan from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it might create a self-interest threat. An example of an action that might be a safeguard to address such a threat is having the work reviewed by a professional who is not a member of the audit team that is neither involved with the audit, nor is a beneficiary of the loan. If the loan is to a firm the reviewing professional might be someone from a network firm.

Commented [IESBA315]: 290.118

Deposits or Brokerage Accounts

R511.7 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Commented [IESBA316]: 290.122

Loans and Guarantees with an Audit Client that is Not a Bank or Similar Institution

R511.8 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an audit client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

Commented [IESBA317]: 290.120

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

Section 520

Business Relationships

Introduction

520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA318]: New paragraph

520.2 A close business relationship between an audit client or its management and a firm, a network firm, an audit team member, or any of that individual's immediate family might create self-interest or intimidation threats.

Commented [IESBA319]: 290.123

520.3 Section 520 sets out specific requirements and application material relevant to applying the conceptual framework to these business relationships.

Commented [IESBA320]: New paragraph

Requirements and Application Material

General

520.4 A1 Section 520 contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA321]: 290.101

520.5 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

Commented [IESBA322]: 290.123

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm or a network firm distributes or markets the client's products or services, or the client distributes or markets the firm or a network firm's products or services.

Firm, Network Firm or Audit Team Member Relationships

R520.6 A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless the financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.

Commented [IESBA323]: 290.123

Common Interests in Closely-Held Entities

R520.7 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity

Commented [IESBA324]: 290.124

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when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable; and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

520.8 A1 The purchase of goods and services from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

Commented [IESBA325]: 290.125

520.8 A2 Actions that might eliminate threats created by purchasing goods and services from an audit client include:

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

Section 521

Family and Personal Relationships

Introduction

521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA326]: New paragraph

521.2 Family or personal relationships between firm and client personnel might create self-interest, familiarity or intimidation threats.

Commented [IESBA327]: 290.126

521.3 Section 521 sets out specific requirements and application material relevant to applying the conceptual framework to these family or personal relationships.

Commented [IESBA328]: New paragraph

Requirements and Application Material

General

521.4 A1 Threats are created by family and personal relationships between an audit team member and a director or officer or, depending on their role, certain employees of the audit client. Factors that are relevant in evaluating the level of any such threats include:

Commented [IESBA329]: 290.126

- The individual's responsibilities on the audit team; and
- The role of the family member or other individual within the client and the closeness of the relationship.

Immediate Family of an Audit Team Member

521.5 A1 Threats are created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.

Commented [IESBA330]: 290.128

521.5 A2 Factors that are relevant in evaluating the level of any such threat created include:

Commented [IESBA331]: 290.128

- The position held by the immediate family member.
- The role of the audit team member.

521.5 A3 An example of an action that might be a safeguards to address the threats set out in paragraph 521.5 A1 is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.

Commented [IESBA332]: 290.128

An action that might eliminate the threat is removing the individual from the audit team.

R521.6 An individual shall not participate as an audit team member when any of that individual's immediate family:

Commented [IESBA333]: 290.127

- (a) Is a director or officer of the audit client;
- (b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion; or
- (c) Was in any such position during any period covered by the engagement or the financial statements.

Close Family of Audit Team Member

- 521.7 A1 Threats are created when a close family member of an audit team member is:
- (a) A director or officer of the audit client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Commented [IESBA334]: 290.129

- 521.7 A2 Factors that are relevant in evaluating the level of threats created by the relationships set out in paragraph 521.7 A1 include:

Commented [IESBA335]: 290.129

- The nature of the relationship between the audit team member and the close family member.
- The position held by the close family member.
- The role of the audit team member.

- 521.7 A3 An example of an action that might be a safeguard to address threats created by the relationships set out in paragraph 521.7 A1 is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the close family member.

Commented [IESBA336]: 290.129

An action that might eliminate threats created by those relationships is removing the individual from the audit team.

Other Close Relationships of Audit Team Member

- R521.8** An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:

Commented [IESBA337]: 290.130

- (a) A director or officer of the audit client; or an employee in a position to exert significant influence over the preparation of the client's accounting records; or
- (b) The financial statements on which the firm will express an opinion.

- 521.8 A1 Factors that are relevant in evaluating the level of threats created by such relationships include:

Commented [IESBA338]: 290.130

- The nature of the relationship between the individual and the audit team member.
- The position the individual holds with the client.
- The role of the audit team member.

- 521.8 A2 An example of an action that might be a safeguard to address threats created by close relationships of audit team members is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the individual with whom the audit team member has a close relationship.

Commented [IESBA339]: 290.130

An action that might eliminate threats created by such relationships is removing the professional from the audit team.

Relationships of Partners and Employees of the Firm

- R521.9** Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

Commented [IESBA340]: 290.131

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- (a) A partner or employee of the firm who is not an audit team member; and
- (b) A director or officer of the audit client or an employee of the audit client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.9 A1 Factors that are relevant in evaluating the level of any threat created by such relationships include:

Commented [IESBA341]: 290.131

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The interaction of the partner or employee of the firm with the audit team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

521.9 A2 Examples of actions that might be safeguards to address threats created by such relationships include:

Commented [IESBA342]: 290.131

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement.
- Having a professional accountant review the relevant audit work performed.

Section 522

Recent Service with an Audit Client

Introduction

522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA343]: New paragraph

522.2 Self-interest, self-review or familiarity threats might be created if an audit team member has recently served as a director or officer, or employee of the audit client.

Commented [IESBA344]: 290.141

522.3 Section 522 sets out specific requirements and application material relevant to applying the conceptual framework in circumstances where audit team members have served with an audit client.

Commented [IESBA345]: New paragraph

Requirements and Application Material

R522.4 The audit team shall not include an individual who, during the period covered by the audit report:

Commented [IESBA346]: 290.142

- (a) Had served as a director or officer of the audit client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

522.5 A1 Self-interest, self-review or familiarity threats might be created if, before the period covered by the audit report, an audit team member:

Commented [IESBA347]: 290.143

- (a) Had served as a director or officer of the audit client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement.

522.5 A2 Factors that are relevant in evaluating the level of any threats created by such recent service with an audit client include:

Commented [IESBA348]: 290.143

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the audit team member.

522.5 A3 An example of an action that might be a safeguard to address the threats set out in paragraph 522.5 A1 is conducting a review of the work performed by the individual as an audit team member.

Commented [IESBA349]: 290.143

Section 523

Serving as a Director or Officer of an Audit Client

Introduction

523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA350]: New paragraph

523.2 Self-review and self-interest threats are created if a partner or employee of the firm or a network firm serves as a director or officer of an audit client.

Commented [IESBA351]: 290.144

523.3 Section 523 sets out specific requirements and application material relevant to applying the conceptual framework in these circumstances.

Commented [IESBA352]: New paragraph

Requirements and Application Material

R523.4 A partner or employee of the firm or a network firm shall not serve as a director or officer of an audit client of the firm.

Commented [IESBA353]: 290.144

R523.5 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit client of the firm, unless:

Commented [IESBA354]: 290.146

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

523.5 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. (More information on providing non-assurance services to an audit client is set out in Section 600 - *Provision of Non-assurance Services to an Audit Client*.)

Commented [IESBA355]: 290.145

Section 524

Employment with an Audit Client

Introduction

524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA356]: New paragraph

524.2 Employment relationships between former partners or employees of a firm or a network firm and an audit client might create familiarity or intimidation threats.

Commented [IESBA357]: 290.132

524.3 Section 524 sets out specific requirements and application material relevant to applying the conceptual framework to these employment relationships.

Commented [IESBA358]: New paragraph

Requirements and Application Material

General

524.4 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit team member or partner of the firm or a network firm:

Commented [IESBA359]: 290.132

- A director or officer of the audit client.
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

R524.5 The firm shall ensure that no significant connection remains between the firm or a network firm and:

Commented [IESBA360]: 290.133

- (a) A former partner who joins an audit client of the firm; or
- (b) A former audit team member who joins the audit client,

if either has joined the audit client as:

- (i) A director or officer; or
- (ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

524.5 A1 A significant connection remains between the firm or a network firm and the individual, unless:

Commented [IESBA361]: 290.133

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
- (b) Any amount owed to the individual is not material to the firm or the network firm; and
- (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

524.5 A2 Even if the requirements of paragraph R524.5 are met, familiarity or intimidation threats might still be created. Factors that are relevant in evaluating the level of any such threats created include:

Commented [IESBA362]: 290.134

- The position the individual has taken at the client.
- Any involvement the individual will have with the audit team.

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- The length of time since the individual was an audit team member or partner of the firm or network firm.
- The former position of the individual within the audit team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

524.5 A3 Examples of actions that might be safeguards to address threats created by such employment relationships include:

Commented [IESBA363]: 290.134

- Modifying the audit plan.
- Assigning individuals to the audit team who have sufficient experience relative to the individual who has joined the client.
- Having a professional accountant review the work of the former audit team member.

524.6 A1 The requirement to apply the conceptual framework also applies if, prior to an entity becoming an audit client of the firm, a former partner of the firm or network firm has joined the entity as:

Commented [IESBA364]: 290.135

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

R524.7 A firm or network firm shall have policies and procedures that require audit team members to notify the firm or network firm when entering employment negotiations with an audit client.

Commented [IESBA365]: 290.136

524.7 A1 A self-interest threat is created when an audit team member participates in the audit engagement while knowing that the audit team member will, or might, join the client at some time in the future.

Commented [IESBA366]: 290.136

524.7 A2 An example of an action that might be a safeguard to address threats set out in paragraph 524.7 A1 is having an appropriate professional review any significant judgments made by that individual while on the team.

Commented [IESBA367]: 290.136

An action that might eliminate such threats is removing the individual from the audit team.

Audit Clients that are Public Interest Entities

Key Audit Partners

R524.8 Subject to paragraph R524.10, if an individual who was a key audit partner with respect to an audit client that is a public interest entity joins the client as:

Commented [IESBA368]: 290.137

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, independence is compromised unless, subsequent to the individual ceasing to be a key audit partner:
 - (i) The audit client has issued audited financial statements covering a period of not less than twelve months; and
 - (ii) The individual was not an audit team member with respect to the audit of those financial statements.

Chief Executive of the Firm

R524.9 Subject to paragraph R524.10, if an individual who was the Chief Executive, or equivalent, of the firm or a network firm joins an audit client that is a public interest entity as:

Commented [IESBA369]: 290.138

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm or network firm.

Business Combinations

R524.10 As an exception to paragraphs R524.8 and R524.9, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

Commented [IESBA370]: 290.139

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm;
- (c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the position held with the audit client by the former partner with those charged with governance.

Section 525

Temporary Personnel Assignments

Introduction

525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA371]: New paragraph

525.2 The loan of personnel by a firm or a network firm to an audit client might create self-review threats.

Commented [IESBA372]: 290.140

525.3 Section 525 sets out specific requirements and application material relevant to applying the conceptual framework to loans of firm or network firm personnel to an audit client.

Commented [IESBA373]: New paragraph

Requirements and Application Material

525.4 A1 Examples of actions that might be safeguards to address any threats created by the loan of personnel by a firm or a network firm to an audit client include:

Commented [IESBA374]: 290.140

- Conducting an additional review of the work performed by the loaned personnel.
- Not including the loaned personnel as an audit team member.
- Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment.

R525.5 A firm or network firm shall not loan personnel to an audit client unless:

Commented [IESBA375]: 290.140

- (a) Such assistance is provided only for a short period of time;
- (b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and
- (c) The personnel do not assume management responsibilities and the audit client is responsible for directing and supervising the activities of the personnel.

[540 Reserved for Long Association]

[600 Reserved for Non-Assurance Services]

[800 Reserved for Reports that Include a Restriction on Use and Distribution]

[900 Reserved for Part 4B - Independence for Other Assurance Engagements]

GLOSSARY^f

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the following expressions have the following meanings assigned to them.

In this Glossary, defined terms are shown in regular font; italics are used for described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Acceptable level*	A level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Assurance client	The responsible party that is the person (or persons) who: <ol style="list-style-type: none"> (a) In a direct reporting engagement, is responsible for the subject matter; or (b) In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.
Assurance engagement	An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. <p>(For guidance on assurance engagements, see the <i>International Framework for Assurance Engagements</i> issued by the International Auditing and Assurance Standards Board. The <i>International Framework for Assurance Engagements</i> describes the elements and objectives of an assurance engagement and identifies engagements to which <i>International Standards on Auditing</i> (ISAs), <i>International Standards on Review Engagements</i> (ISREs) and <i>International Standards on Assurance Engagements</i> (ISAEs) apply.)</p>
Assurance team	<ol style="list-style-type: none"> (a) All members of the engagement team for the assurance engagement; (b) All others within a firm who can directly influence the outcome of the assurance engagement, including: <ol style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance

^f Most of the definitions and descriptions in this Glossary were brought forward from the extant Code. However, the definitions and descriptions with:

- One asterisk "*" were developed revised as part of Phase 1 of the Safeguards project.
- Two asterisks "**" have been brought forward to the Glossary from the body of the Code. When applicable, those definitions and descriptions include a comment box referring readers to the relevant material in the extant Code.

engagement partner in connection with the performance of the assurance engagement;

- (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
- (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Audit** *In Part 4A, the term "audit" also refers to "review."*

Commented [IESBA376]: 290.3

Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.20.)*

In Part 4A, the term "audit client" also refers to "review client."

Audit engagement A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

In Part 4A, the term "audit engagement" also refers to "review engagement."

Audit report** *In Part 4A, the term "audit report" also refers to "review report."*

Commented [IESBA377]: 290.3

- Audit team
- (a) All members of the engagement team for the audit engagement;
 - (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive (Senior or Managing Partner or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

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(c) All those within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term “audit team” also refers to “review team.”

Close family	A parent, child or sibling who is not an immediate family member.
Conceptual Framework	<i>This term is described in Section 120.</i>
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period**	<i>This term is described in paragraph R540.6 for the purposes of paragraphs R540.10 to R540.19 A1.</i>
Direct financial interest	A financial interest: <ul style="list-style-type: none"> (c) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (d) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement**	<i>This term is described in paragraph R800.3 for the purposes of Section 800.</i>
Eligible assurance engagement**	<i>This term is described in paragraph R999.3 for the purposes of Section 999.</i>
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement Period** (Audit and Review)	The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report
Engagement Period** (Other Assurance Engagements)	The engagement period starts when the assurance team begins to perform assurance services. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

Commented [IESBA378]: 290.30

Commented [IESBA379]: 291.30

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Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>
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.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	<p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties, through ownership, management or other means.</p>

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Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.

Fundamental Principles *These terms are described in paragraphs:*

Integrity R111.1

Objectivity R112.1

Professional competence and due care R113.1

Confidentiality R114.1

Professional behavior R115.1

Historical financial information Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family A spouse (or equivalent) or dependent.

Independence Independence comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised.

As set out in paragraphs 400.5 and 900.4, references to an individual or firm being “independent” mean that the individual or firm has complied with Parts 4A and 4B, as applicable.

Indirect financial interest A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Key audit partner The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.

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Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
May**	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement.</i>
Might**	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken.</i>
Network	A larger structure: (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to a network. <i>For further information see paragraphs 400.50 A1 to 400.54 A1.</i>
Non-compliance with laws and regulations (Professional Accountants in Business)**	<i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i> (a) <i>The professional accountant’s employing organization;</i> (b) <i>Those charged with governance of the employing organization;</i> (c) <i>Management of the employing organization; or</i> (d) <i>Other individuals working for or under the direction of the employing organization.</i>
Non-compliance with laws and regulations (Professional Accountants in Public Practice)**	<i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i> (a) <i>A client;</i> (b) <i>Those charged with governance of a client;</i> (c) <i>Management of a client; or</i> (d) <i>Other individuals working for or under the direction of a client.</i>
Office	A distinct sub-group, whether organized on geographical or practice lines.
Predecessor accountant**	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, taxation, consulting or similar professional services for a client, where there is no existing accountant.

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Professional accountant	<p>An individual who is a member of an IFAC member body.</p> <p><i>In Part 1, the term “professional accountant” refers to professional accountants in business and to professional accountants in public practice and their firms.</i></p> <p><i>In Part 2, the term “professional accountant” refers to professional accountants in business.</i></p> <p><i>In Parts 3, 4A and 4B, the term “professional accountant” refers to professional accountants in public practice and their firms.</i></p>
Professional accountant in business	<p>A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner manager or volunteer.</p>
Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p><i>This term is also used to refer to a firm of professional accountants in public practice.</i></p>
Professional activity	<p>An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.</p>
Professional services	<p>Professional activities performed for clients.</p>
Proposed accountant**	<p>A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, taxation, consulting or similar professional services for a prospective client (or in some cases, an existing client).</p>
Public interest entity	<p>(a) A listed entity; or</p> <p>(b) An entity:</p> <ul style="list-style-type: none">(i) Defined by regulation or legislation as a public interest entity; or(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator. <p><i>Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.</i></p>
Reasonable and Informed Third Party*	<p><i>The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to</i></p>

Commented [IESBA380]: 120.5 A1

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Reasonable and Informed Third Party Test*	<i>know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.</i>
Related entity	An entity that has any of the following relationships with the client: <ul style="list-style-type: none">(a) An entity that has direct or indirect control over the client if the client is material to such entity;(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;(c) An entity over which the client has direct or indirect control;(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and(e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	<ul style="list-style-type: none">(a) All members of the engagement team for the review engagement; and(b) All others within a firm who can directly influence the outcome of the review engagement, including:<ul style="list-style-type: none">(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive, (Senior or Managing Partner or equivalent);(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

- (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

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

Commented [IESBA381]: 120.10 A1

Senior Professional Accountant in Business** Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.

Commented [IESBA382]: 360.13 NOCLAR

Substantial harm** *This term is described in paragraphs 260.7 A2 and 360.7 A2.*

Commented [IESBA383]: 225.7, 360.7 NOCLAR

Special purpose financial statements Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

Those charged with governance The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats** *These terms are described throughout the Code, including in paragraphs:*

<i>Self Interest</i>	<i>120.6 A3(a)</i>
<i>Self-review</i>	<i>120.6 A3(b)</i>
<i>Advocacy</i>	<i>120.6 A3(c)</i>
<i>Familiarity</i>	<i>120.6 A3(d)</i>
<i>Intimidation</i>	<i>120.5 A3(e)</i>

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Published by:





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