

**Draft Consultation Paper:  
Improving the Structure of the IESBA Code****I. Introduction**

1. This Consultation Paper has been issued by the International Ethics Standards Board for Accountants (IESBA) to seek input on improving the clarity and structure of the IESBA *Code of Ethics for Professional Accountants* (the Code). The Board is undertaking this consultation as part of a project to improve the usability of the Code, thereby facilitating its adoption or convergence, effective implementation and consistent application.
2. If any changes to the meaning of the Code are identified when restructuring the Code, they would be subject to the agreement of the Board and appropriate due process.
3. This Consultation Paper comprises the following sections:
  - I. Introduction
  - II. Background
  - III. Restructuring the Code
  - IV. Use of Language
  - V. Reorganization of the Code
  - VI. Identification of a Firm or Individual Accountant's Responsibility
  - VII. Electronic Code
  - VIII. Illustrative Examples
  - IX. Table of Concordance
4. The Illustrative examples in Section VIII use a possible revised numbering system, and references in this Consultation Paper, for example in the explanation of changes to responsibility, use this numbering system.

**II. Background**

5. The IESBA's objective is to serve the public interest by setting high-quality ethics standards for professional accountants and facilitating the convergence of international and national ethics standards; enhancing the quality and consistency of services provided by professional accountants throughout the world and strengthening public confidence in the global accounting profession. It is in the public interest for the Code to be understandable and enforceable.
6. The IESBA has in the past received feedback on the usability of the Code. For example, the IESBA has received comments on difficulties in translating some parts of the Code, and understanding complex and long sentences in the Code. An IFAC Small and Medium Practices (SMP) Committee survey stated that the biggest barrier faced by SMPs in fully adhering to the Code is understanding the requirements of the Code. In addition, regulators have provided comments on enforceability. These issues affect the usability of the Code and may be impacting adoption and implementation.

7. In order to gain additional insights into the challenges faced by professional accountants, regulators and IFAC member bodies, the IESBA researched the views of a broad range of stakeholders from Europe, Australasia, Asia, North and South America, and Africa. Stakeholder groups included the IESBA Consultative Advisory Group, regulators, including the International Organization of Securities Commissions (IOSCO) and some members of the International Forum of Independent Audit Regulators (IFIAR), the IESBA-National Standard Setters (NSS) liaison group, IFAC member bodies, the IFAC SMP Committee and firms. The IESBA also considered a consolidated response in respect of the European profession. The research provided a basis for the proposals in this paper. Any action will be further validated if and when the IESBA exposes proposed changes.
8. The research addressed whether there is a case for change and, if so, the nature of any changes that may be warranted. The findings indicated a broad-based appetite for change. There is widespread support from those providing input to raise the visibility of the Code's requirements, clarify who is responsible for compliance, and clarify the language in the Code on a timely basis.
9. There is also support for, but less urgency associated with, developing a reorganized and electronic Code and complementary materials to help users better understand the Code. The IESBA is of the view that a reorganized and electronic Code may enhance usability, and should be considered in conjunction with other clarity and structural changes. Complementary materials may best be considered after the Code itself has been clarified and restructured.
10. The timing of this project will have an impact on when other projects in the work plan adopt a new structure and drafting conventions. Conversely, the outcomes of other projects may have an impact on this project. In particular, a potential project to review the use of safeguards in the Code is included in the current strategy and work plan. The Board is considering the alignment of the timing of its various projects. Any review of safeguards in the Code will be addressed independently of the structure project but on an aligned timeline. It is intended that the Board's conclusions on the use of safeguards will be incorporated into the Exposure Draft of the restructured code that is scheduled to follow this Consultation Paper.

### **III. Restructuring the Code**

11. A number of stakeholders have expressed a strong desire that the Code more clearly distinguish requirements from guidance. They are concerned that the current structure makes it difficult to identify requirements and may impede compliance and enforcement. Other stakeholders are comfortable working with the Code as currently structured and believe that there is a risk that the linkage between requirements and guidance may be lost if they are separated. The Board proposes addressing both the desire to more clearly distinguish requirements from guidance, and the risk of a lost linkage, by separating requirements and cross-referencing to the related application guidance, using consistent sub-headings and keeping the requirements and guidance close to one another.
12. The Board believes restructuring the Code by raising the visibility of the requirements while retaining the principles-based approach will improve its usability, thereby facilitating adoption, convergence and consistent application. However, to address any perception that the Code is becoming unduly rules-based, because the requirements are more visible, the Board has strengthened the linkage of the requirements to the conceptual framework.
13. Some regulators have responsibility for auditor independence but not for other aspects of professional ethics. The IESBA is interested in feedback on whether separating the independence

requirements from the “application and other explanatory material” facilitates adoption into laws and regulations for such users.

14. The IESBA proposes to add wording to the Code to explain the authority of the three new segments of each Section, for example:

*In addition to purpose and requirements (requirements are expressed in the Code using “shall”), a Section contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the Section. The entire text of a section, therefore, is relevant to an understanding of the purpose stated in a Section and the proper application of the requirements of a Section.*

15. The IESBA is proposing to restructure each section as follows:

- Purpose;
- Requirements; and
- Application and other explanatory material.

Each of the three parts is presented in separate paragraphs. The Code also now includes a Foreword. The Foreword, including a “How to Use the Code” section, is intended to assist users, especially those who are unfamiliar with the Code, in understanding the connections between various parts of the Code, and to reduce the risk that users will read a single section without understanding the overarching context.

#### *Purpose*

16. The Purpose paragraph includes introductory comments to broadly describe the context and then briefly describe what threats may exist, referring users to the fundamental principles and, where relevant, the independence provisions. It will set out the context in which the requirements are to be read, rather than creating a requirement in itself. The language is deliberately broad. More specific language is used in the requirements. The Purpose paragraph includes a reminder, at the start of each section, of the importance of the fundamental principles and the requirement to comply with the principles-based conceptual framework.
17. The IESBA is mindful of the importance of the conceptual framework approach, which addresses threats to compliance with the fundamental principles, rather than simply complying with rules. Any changes to the structure of the Code will retain the conceptual framework approach.

#### *Requirements*

18. In addition to the general requirements mentioned in the Purpose, the requirements section identifies the requirements that address the specific threats related to the individual section. These are in addition to the requirement to comply with the conceptual framework. The Code requires professional accountants to comply with all provisions denoted by the word “shall,” unless compliance is prohibited by law or regulation or an exception is permitted by the Code. The word “should” is not used in the Code as an alternative to “shall.” “Shall” denotes a requirement and is not used in the application and other explanatory material sections. Where it is necessary to refer in “application and other explanatory material” to a requirement that is already established in the requirements section, wording other than use of the term “shall” is employed.

*Application and Other Explanatory Material.*

19. The “application and other explanatory material” paragraphs include:
- Matters identified as threats but which are not prohibited if sufficient safeguards are available.
  - Guidance on what a requirement means or is intended to cover.
  - Matters the professional accountant would consider.
  - Suggested procedures.
  - Examples of procedures that may be appropriate in the context of the engagement or assignment.
20. The IESBA proposes to avoid the use of the present tense in application and other explanatory material in relation to actions by the professional accountant where it may be ambiguous whether it imposes an obligation on the professional accountant, or is in fact optional. Such statements will be drafted so as to make it clear that there is no intention to create a requirement. Alternative language is used that appropriately explains the IESBA’s intentions. Some “shall” statements in the current Code that were determined to be interpretations or examples of the application of a requirement are now included as part of “application and other explanatory material.” Those provisions have been redrafted so as not to use “shall” to impose an additional requirement.

**Questions**

1. Does the “How to Use the Code” example provide an effective explanation of how the Code should be used? If not, what more should be done?
2. Are the proposals an appropriate way to restructure the Code? If not, how should it be restructured?
3. Does the restructuring:
  - a) Make the Code more understandable? If not, what other measures could be adopted?
  - b) Make the Code more enforceable? If not, what other measures could be adopted?
  - c) Facilitate adoption or convergence of the Code, and in particular make it more capable of being adopted into laws and regulations, particularly in respect of Independence? If not, what further structural steps could be taken?
4. Do you have any other comments on the illustrative examples?

**IV. Use of Language**

21. Some users, especially those whose first language is not English, have reported difficulty in understanding the Code. The examples have been designed to enhance the readability and clarity of the Code by various means including, where possible:
- Simpler and shorter sentences.
  - Simplifying complex grammatical structures.

- Adding a link from the definitions section to terms which although defined, are described at greater length within the text of the Code, such as network firm.
  - Increased use of the active voice.
  - Avoiding repetition in the body of the text of definitions which are included in the list of defined terms.
  - Avoiding legalistic and archaic terms, nuances, and superfluous adjectives.
  - Aligning terminology used in the independence sections with that used by the International Auditing and Assurance Standards Board (IAASB).
22. Some issues and therefore the related requirements, can be quite complex. However, the IESBA believes that even complex requirements can sometimes be more clearly expressed.
23. Certain words or phrases are used which, in the Independence provisions of the Code, have a specific reading which a user may not expect unless the user has a comprehensive knowledge of the Code. Examples include
- Audit includes review.
  - Professional accountant in public practice includes firm.
  - Firm includes network firm.

This practice avoids some complexity of language and allows brevity in the relevant provisions; however, it may mislead a user who is unaware that the meaning may be other than a literal reading would indicate.

24. With regard to terms with a specific meaning, the IESBA proposes the following:
- The restructured Code would include a link, both in the paper and electronic versions, to a glossary to terms that are described in greater detail, within the Code, than in the definitions section.
  - To continue to use “audit” to include “review” because to include “audit and review” in every instance would be cumbersome and reduce the readability of the Code. An alternative solution would be to create a new section only for review engagements that would duplicate Section 290 but this would make the code significantly longer for little benefit.
  - In regard to “professional accountant in public practice” including “firm,” to clarify where responsibility applies to the individual and to the firm as explained in Section V.
  - References to “network firms” have been used in situations where an interest, activity or relationship that may create a threat to independence applies to a firm that provides an audit engagement as well as to those entities within its network
25. The IESBA will consider the translatability of proposed changes during drafting.

**Questions**

5. Are the proposals to clarify language which has a specific meaning within the Code helpful?
6. Do stakeholders have any further suggestions on ways to improve the use of language in the Code?

**V. Reorganization of the Code**

26. Some stakeholders find it difficult to navigate around the Code, and there is a risk that a user may not consider all relevant material in the Code. Some of these stakeholders have a particular interest in the independence standards. Others, not involved with audits and other assurance engagements, have no interest in the independence standards.
27. Certain stakeholders have expressed interest in raising the profile of the independence section of the Code by splitting independence into individual standards. This may play a part in facilitating navigation because of the size of the Independence sections and the fact that they are currently located between Parts A and C of the Code. However, care would be needed to avoid losing the linkage between the independence standards and the Code's conceptual framework.
28. Relevant factors in the consideration of the merits of re-organization of the Code include the following:
  - Regulators may find it easier to use the Code if clearly distinguishable independence standards are separate from the rest of the Code.
  - The importance of clear linkage to the conceptual framework, avoiding the risk that users simply refer to the examples provided.
  - The inclusion of independence standards in laws and regulations in certain jurisdictions.
  - A numbering system that allows for the addition of new paragraphs.
29. The IESBA proposes:
  - A new numbering system. The proposed numbering convention relies on the division of the Parts into overall sections (100, 200, 300, 400 and 500), with further subdivisions into topics (for example, 310, 320, 330) and then further subdivisions within topics into subtopics (for example, 310.000, 310.100, 310.200). This numbering convention is proposed because it facilitates the future expansion of current topics and sub-topics without re-numbering every paragraph that follows a change or contrived numbering (for example, paragraph100A, 100B, 100C etc.)
  - Moving current Part C before current Part B, so that material related to professional accountants in business will become the 200 series and the material related to professional accountants in public practice will become the 300-500 series. This allows all of the material related to professional accountants in public practice to be grouped together and independence to be presented at the end.
  - To cross reference the relevant conceptual framework paragraphs in Section 100 (currently Part A) to the Independence provisions.
  - To clarify the linkage between independence and the fundamental principle of objectivity.

- To maintain Independence as an integral part of the Code, but with the new numbering system for individual sub-sections.

## VI. Identification of a Firm's or Individual Accountant's Responsibility

30. Various stakeholders have asked that responsibility for compliance with the Code in particular circumstances be clarified to facilitate compliance and enforcement.
31. The proposed assignment of responsibility to the "firm" as part of the independence requirements, except where it is clearly beyond the firm's control, is more precise than in the current Code. Assignment of individual responsibility to a specific person is achieved through a firm's policies and procedures because [in the view of the IESBA] it is appropriate for a global code to be sufficiently flexible to accommodate the needs of diverse jurisdictions in prescribing the specific responsibility of individuals within the firm for actions related to independence. Responsibility may differ depending on the size, structure and organization of a firm and the culture in which it operates.
32. The Code does not currently include a requirement that a firm shall have policies and procedures that enable identification of the individual or individuals responsible for maintaining independence in a particular circumstance. The Code currently cross-references related requirements in International Standard on Quality Control (ISQC) 1<sup>1</sup> and the International Standards on Auditing (ISAs). It also assumes that all users of the Code use IAASB material. A new provision is now proposed which would create a requirement particular to the Code while remaining consistent with ISQC1 and the ISAs:

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

- a) Enable identification of individuals with appropriate authority who, in particular circumstances, are responsible for compliance with this section by the firm;*
  - b) Maintain compliance with this Code by all individuals within the firm and, as applicable, their immediate and close family; and*
  - c) Require all individuals within the firm to communicate threats to independence to those individuals identified in (a) in order that such individuals may take appropriate action on behalf of the firm to comply with this section. (Ref: 300.202)*
33. The Code is written for individual professional accountants and some sections refer to professional accountants in public practice. The definition of professional accountant in public practice includes a firm and therefore it is sometimes unclear whether references to a professional accountant in public practice are to an individual or to the firm. The IESBA proposes to address this by adding a sentence in Section 100 that states "In this section, the term professional accountant refers to professional accountants in business as well as to professional accountants in public practice and to the firms in which they practice." Subsequent sections will refer specifically to either a professional accountant in public practice or professional accountant in business as appropriate, for example in paragraph 100.020.

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

34. In section 300, the term “professional accountant” refers to a professional accountant in public practice and to the firm in which such a professional accountant practices, in order to be succinct while drawing the attention of the user to the fact that section 300 applies to professional accountants and the firms in which they work.
35. In section 400, paragraphs 400.000 to 499.999 apply to firms and professional accountants in public practice. They set out requirements that apply to, and provide guidance for, firms, professional accountants, or both, as the case may be, with respect to maintaining independence when performing audit engagements.
36. Paragraph 290.12 of the Code currently states the following:

*This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization of a firm. The firm is required by International Standards on Quality Control (ISQCs) to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing (ISAs)<sup>2</sup> require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.*

37. The IESBA recognizes that the assignment of responsibility for compliance with the Code will depend on the particular circumstances. The IESBA is of the view that clarification of responsibility by reducing the use of the passive voice and developing the guidance currently in paragraph 290.12 may better enable compliance and enforcement. Compliance with the Code will be enhanced if professional accountants are better able to understand their own responsibility through firms having effective policies and procedures appropriately documented and communicated, to enable individuals to identify who is responsible for compliance with each standard in particular circumstances in regard to independence.
38. In March 2014, in response to the IESBA's consultation on its proposed Strategy and Work Plan 2014-2018, the International Organization of Securities Commissions (IOSCO) stated that an objective of this aspect of the project should be “[t]o clearly identify who specifically within the firm (for example, the firm’s quality control function, firm leadership, the engagement partner or the engagement team) has responsibility for compliance with the Code.” The IESBA has considered this input from IOSCO, and input received from other stakeholders, and believes its proposals will facilitate compliance and enforcement. The IESBA believes that the optimal way to address this suggestion is to:
  - Reduce the number of requirements where the responsibility is unclear because of the use of the passive voice;
  - Set out responsibilities for professional accountants or firms that are relevant within each section as noted in paragraphs 30 and 31 above for the reasons below:
    - In Section 100, the reference to “professional accountants” to mean all professional accountants is based on the fact that compliance with the fundamental principles and conceptual framework is a basic requirement of the Code for all individual professional accountants;

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<sup>2</sup> IAASB *International Standards on Auditing*

- In Section 200 (examples for this Section have not been included in this Consultation Paper), the reference to “professional accountants” to mean professional accountant in business” is based on the fact that this section is intended to focus on the behavior of individual professional accountants in business, although it may also be a useful reference for individual professional accountants in public practice;
  - In Sections 300, 400 and 500 (examples of Section 500 have not been included in this Consultation Paper), the reference, as the context requires, to “professional accountants” to mean professional accountants in public practice as well as the firms in which they practice and to “firms” or “network firms” is based on recognition that there are situations in which responsibility exists both individually (on the part of the professional accountant) and collectively (on the part of the firm). In addition, references to “network firms” have been used in these sections in situations where an interest, activity or relationship that may create a threat to independence applies to a firm that provides an audit engagement as well as to those entities within its network.
  - Include a requirement in the Code for a firm to establish relevant policies and procedures to assign responsibility rather than relying on a cross reference to ISQC 1.
  - Add guidance to provide examples of who may be a responsible individual within a firm.
39. The proposed changes are intended to align the Code with firms’ current best practice policies and procedures by introducing a requirement in proposed paragraph 300.201 (which would replace existing paragraph 290.12) for the firm to establish policies and procedures that assign responsibility as appropriate to a particular circumstance, and also facilitate identification of a responsible individual.
40. The following text has been proposed to provide examples of who may be a responsible individual within a firm:

*Identifying responsibility for firms*

*300.202 Paragraph 300.201 requires the firm to establish and maintain policies and procedures to enable identification of those individuals who are responsible for the firm’s compliance with the provisions of this section. Such responsible individuals may include:*

- (a) The engagement partner;*
- (b) Senior individuals responsible for ethics or independence matters for the firm;*
- (c) Any other individual within the firm identified as a responsible individual in relation to a particular matter.*

*300.203 Policies that enable identification of responsible individuals may differ depending on the size, structure and organization of a firm. (Ref: 300.201) In addition, International Standards on Auditing (ISAs) require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.*

**Questions**

7. Is the proposed approach to responsibility an appropriate means to enhance the usability and enforceability of the Code?
8. Are the examples of responsible individuals in proposed paragraph 300.202 useful?

**VII. Electronic Code**

41. The Code is currently provided as a pdf version on the IESBA website. The IESBA requested that an HTML version of the code with enhanced navigation and hyperlinks to defined terms, based on the 2014 Handbook, be developed. This is in progress. Further enhancements based on a restructured Code are anticipated.
42. Currently, the paper/pdf version of the Code is the official version. Some jurisdictions that require laws to be published in the official journal of the relevant Ministry require a paper/pdf version of the Code.
43. Opportunities available with an electronic Code, while maintaining a usable printed Code, may include:
  - Filtering that enables all, and only those portions of, the Code relevant to the user to be presented.
  - Cross-linkages between relevant information. For example, links from the “Purpose” paragraph to the fundamental principles and conceptual framework, and links from requirements to the relevant application and other explanatory material. These are in addition to enhancements to an electronic version of the Code which are in progress.
  - Further improvements to navigation.
44. Potential solutions to some of the issues related to restructuring differ depending on whether the official version will continue to be the paper/pdf version or the planned electronic version. For example, creating two parallel independence sections for review engagements and for audit engagements would be a simple matter in an electronic version but would be unwieldy, wasteful and repetitive in a paper version. The Board has not yet addressed whether an electronic version should become the official version.

**Questions**

9. Would you use an HTML version of the Code, with navigation?
10. Should an electronic version of the Code replace the paper/pdf Handbook as the official versions?
11. Do you have any suggestions for an electronic version of the Code?

## VIII. Illustrative Examples

### PART I - FOREWORD

#### Terms used in this Code

- 000.001 In this Code defined terms are colored blue and underlined the first time that they appear in each section.
- 000.002 Terms which are descriptions rather than definitions are colored blue and underlined with a dotted underline the first time that they appear in each paragraph. For ease of reference, these terms will be included within the definitions section of the Code with a cross reference to where the description first appears in the Code.
- 000.003 Terms which are definitions which also include other definitions in their interpretation are shown in blue, bold and underlined text the first time that they occur in each paragraph.
- 000.004 Reference to paragraph numbers ending in .999 are place markers being used until the whole of the Code has been reviewed and renumbered.

#### How to Use this Code

- 000.005 This Code contains six parts.
- Part I - Foreword
  - Part II – General Application of the Code
  - Part III - Professional Accountants in Business
  - Part IV - Professional Accountants in Public Practice
  - Part V - Independence in Relation to Audit and Review Engagements
  - Part VI – Independence in Relation to Other Assurance Engagements
- 000.006 To assist users of the Code the structure of the sections and the topics that they contain is set out in a table in paragraph 000.020 at the end of this Foreword
- 000.007 Each of the Sections of this Code is subdivided into Purpose, Requirements and Application and Other Explanatory Material
- 000.008 Part II establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that firms and professional accountants, using professional judgment, are required to apply in order to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the significance of the threats identified; and
  - (c) Either:
    - (i) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level; or
    - (ii) Decline or discontinue an engagement when safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.

- 000.009 [Safeguards](#) are necessary when the [firm](#) or [professional accountant](#) determines that the [threats](#) are not at an [acceptable level](#). That is a level at which a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time would be likely to conclude, that compliance with the [fundamental principles](#) is not compromised.
- 000.0010 Parts III, IV, V, and VI describe how the [conceptual framework](#) applies in certain situations. They provide examples of [safeguards](#) that may be appropriate to address [threats](#) to compliance with the [fundamental principles](#). They also describe situations where safeguards are not available to address the [threats](#), and consequently, require that the circumstance or relationship creating the [threats](#) be avoided. Part III applies to [professional accountants in business](#), Parts IV, V, and VI apply to [firms](#) and [professional accountants in public practice](#). Professional accountants in public practice may also find Part III relevant to their particular circumstances.
- 000.011 The use of the word “shall” in this Code imposes a requirement on the [professional accountant](#) or [firm](#) to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code.
- 000.012 A [professional accountant](#) or [firm](#) may encounter unusual circumstances regarding the application of the Code. This might occur when the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest. If such circumstances apply the professional accountant is advised to consult with a professional regulatory body or another relevant regulator.

#### *The Fundamental Principles used in this Code*

- 000.013 The IESBA Code of Ethics contains five [fundamental principles](#), applies a [conceptual framework](#) approach and identifies typical [threats](#) and [safeguards](#). An understanding of all of these elements of the Code is essential to an understanding and ability to use the Code.

- [Integrity](#)
- [Objectivity](#)
- [Professional competence and due care](#)
- [Confidentiality](#)
- [Professional Behavior](#)

The fundamental principles are first set out in paragraph 100.005

#### *The Conceptual Framework Approach*

- 000.014 The [conceptual framework approach](#) assists [professional accountants](#) in complying with the ethical requirements of the Code. It is important because it accommodates many variations in circumstances that create [threats](#) to compliance with the fundamental principles. This approach requires professional accountants to identify, evaluate and address threats and either apply [safeguards](#) when necessary to eliminate or reduce threats to an acceptable level or decline or discontinue a professional engagement or when necessary, resign from the engagement or from the organization employing the professional accountant.

000.015 The [conceptual framework](#) approach is first set out in 100.015 and the paragraphs which follow.

*The Threats Referred to in this Code*

000.016 The IESBA Code of Ethics contains five forms of [threats](#)

- [Self-interest](#)
- [Self-review](#)
- [Advocacy](#)
- [Familiarity](#)
- [Intimidation](#)

000.017 The [threats](#) are first set out in paragraph 100.017.

*The Safeguards Referred to in this Code*

000.018 Safeguards are actions or other measures that may eliminate [threats](#) or reduce them to an [acceptable level](#). They fall into two broad categories namely those created by the profession, legislation or regulation and safeguards in the work environment.

000.019 [Safeguards](#) are first set out in paragraph 100.021.

000.020 Table setting out the structure of the Sections within this Code

Part I - Foreword	000	Terms used in this Code How to use this Code
Part II - General Application of the Code	100	Compliance with the Code, Fundamental Principles and Conceptual Framework
	110	Integrity
	120	Objectivity
	130	Professional competence and Due care
	140	Confidentiality
	150	Professional behaviour
	160 – 199	For future use
Part III - Professional Accountants in Business	200	To be determined
Part IV - Professional Accountants in Public Practice	300	.000 - Introduction
		.100 - Network Firms
		.200 – Identifying responsibility for firms

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		.XXX - other sections to be added
	310	Professional appointment
	320	Conflicts of interest
	330	Second opinions
	340	Fees and remuneration
	350	Marketing professional services
	360	Gifts and hospitality
	370	Custody of client assets
	380-399	Reserved for future use
Part V - Independence for Audit and Review Engagements	400	Introduction
	410	Financial Interests
	420	Relationships .000 – Business .100 – Family/personal .200 – Employment with client .300 – Temporary staff .400 – Recent service .500 – Officer, director
	430	Long association
	440	Non-assurance services .000 – Introduction to Non-assurance services .100 – Management responsibility .200 – Preparation of accounting records .300 – Valuations .400 – Tax .500 – Internal audit .600 – Information technology .700 – Litigation support

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Part VI - Independence for Other Assurance Engagements		.800 – Legal .900 – Recruitment .1000 – Corporate finance
	450	Fees
	460	Other .000 – Compensation .100 – Gifts and hospitality .200 – Actual or threatened litigation
	470 - 490	Reserved for future use
	500, 510 etc.	To be determined

## PART II – GENERAL APPLICATION OF THE CODE

### SECTION 100

#### Compliance with the Code, Fundamental Principles and Conceptual Framework

##### Terms used in this section

In this section, the term “[professional accountant](#)” refers to [professional accountants in business](#) as well as to [professional accountants in public practice](#) and to the firms within which they practice.

##### Purpose of the Code and this Section professional accountants regarding:

- (a) the [fundamental principles](#);
- (b) the approach to ethical conflict resolution, and
- (c) the [conceptual framework](#) approach which includes addressing [threats](#) to those fundamental principles and implementing [safeguards](#),
- (d) that are fundamental to acting in the public interest.

##### Requirements

###### *Requirement to Comply with the Code*

- 100.003 A [professional accountant](#) shall comply with this Code. There may be circumstances when a professional accountant is prohibited from complying with certain parts of this Code by law or regulation. In that event the professional accountant shall comply with all other parts of this Code.
- 100.004 Notwithstanding the requirements set out in paragraph 100.003,
- (a) When a [professional accountant](#) identifies a breach of a provision of this Code, the professional accountant shall evaluate the significance of the breach. The professional accountant shall also evaluate its impact on the professional accountant’s ability to comply with the [fundamental principles](#). The professional accountant shall take whatever actions may be available, as soon as possible, to satisfactorily address the consequences of the breach. The professional accountant shall also determine whether to report the breach to those who may have been affected by the breach, a professional regulatory body, another relevant regulator or oversight authority, or others; and
  - (b) Specific requirements apply when a professional accountant identifies a breach of a provision of Part V and VI of this Code. The professional accountant shall comply with those provisions of Parts V and VI that establish the requirements for professional accountants to address such breaches.

###### *Fundamental Principles*

- 100.005 A [professional accountant](#) shall comply with the following [fundamental principles](#):
- (a) [Integrity](#) – to be straightforward and honest in all professional and business relationships.
  - (b) [Objectivity](#) – to provide professional or business judgments without bias, conflict of interest or undue influence of others.

- (c) [Professional Competence and Due Care](#) – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent [professional services](#), based on current developments in practice, legislation and techniques, and 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 therefore, not:
  - (i) Disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose; or
  - (ii) Use the information for the personal advantage of the professional accountant or third parties.
- (e) [Professional Behavior](#) – to comply with relevant laws and regulations and avoid any action that discredits the profession. (Ref: Para. 100.009)

#### *Ethical Conflict Resolution*

- 100.006 When resolving a conflict in complying with the [fundamental principles](#), the [professional accountant](#) shall:
- (a) Determine the appropriate course of action, weighing the consequences of each possible course of action;
  - (b) If the matter involves a conflict with, or within, an organization, determine whether to consult with those charged with governance of the organization. These may be the board of directors or the audit committee;
  - (c) Refuse to remain associated with the matter creating the conflict, where possible, if, after exhausting all relevant possibilities the ethical conflict remains unresolved; and
  - (d) Determine whether, in the circumstances, it is appropriate to:
    - (i) Withdraw from the engagement team or specific assignment; or
    - (ii) Resign altogether from the engagement, the [firm](#) or the employing organization. (Ref: Para. 100.010 to .014)

#### *Applying the Conceptual Framework Approach – Threats and Safeguards*

- 100.007 A [professional accountant](#) shall use professional judgment to apply the [conceptual framework](#) set out in this Code in order to comply with the [fundamental principles](#), and shall:
- (a) Identify [threats](#) to compliance with the fundamental principles;
  - (b) Evaluate the significance of the threats identified; and
  - (c) Either apply [safeguards](#), when necessary, to eliminate the threats or reduce them to an [acceptable level](#), or when the threats cannot be eliminated or reduced to an acceptable level:
    - (i) Decline or discontinue the specific [professional service](#) involved; or
    - (ii) When necessary, resign from the engagement or from the organization employing the professional accountant. (Ref: Para. 100.015 to .024)

- 100.008 In complying with the provisions set out in paragraphs 100.005 and 100.007, a **professional accountant** shall:
- (a) Evaluate any **threats** to compliance with the **fundamental principles** when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with them;
  - (b) Take into account whether a reasonable and informed third party, weighing all the facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards such that compliance with the fundamental principles is not compromised; and
  - (c) Take qualitative as well as quantitative factors into account when evaluating the significance of a threat. (Ref: Para. 100.017 to .020)

### **Application and Other Explanatory Material**

#### *Fundamental Principles*

- 100.009 Each of the **fundamental principles** with which **professional accountants** are required to comply, as set out in Paragraph 100.005, is discussed in more detail in Sections 110–199.

#### *Ethical Conflict Resolution*

- 100.010 A **professional accountant** may be required to resolve a conflict in complying with the **fundamental principles**. (Ref: Para.100.006)
- 100.011 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:
- (a) Relevant facts.
  - (b) Ethical issues involved including the **fundamental principles**.
  - (c) Established internal procedures.
  - (d) Alternative courses of action.
  - (e) Consultation with other appropriate persons within the **firm** or employing organization. (Ref: Para. 100.006)
- 100.012 It may be in the best interests of the **professional accountant** to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue. (Ref: Para.100.006)
- 100.013 If a significant conflict cannot be resolved, a **professional accountant** may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching the **fundamental principle** of **confidentiality** if the matter is discussed:
- With the relevant professional body on an anonymous basis; or
  - With a legal advisor under the protection of legal privilege. (Ref: Para. 100.006)

100.014 Instances in which the [professional accountant](#) may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect [confidentiality](#). The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report. (Ref: Para. 100.006)

*Applying the Conceptual Framework Approach – Threats and Safeguards*

100.015 The circumstances in which [professional accountants](#) operate may create specific [threats](#) to compliance with the [fundamental principles](#). It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different [safeguards](#). Therefore, this Code establishes a [conceptual framework](#) that requires professional accountants to identify, evaluate, and address threats to compliance with the fundamental principles. (Ref: Para. 100.007, .008)

100.016 The [conceptual framework](#) approach assists [professional accountants](#) in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create [threats](#) to compliance with the [fundamental principles](#). It can deter professional accountants from concluding that a situation is permitted if it is not specifically prohibited. (Ref: Para. 100.007, .008)

*Threats*

100.017 [Threats](#) may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a [professional accountant's](#) compliance with the [fundamental principles](#). A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

- (a) [Self-interest threat](#) – that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior;
- (b) [Self-review threat](#) – that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed;
  - (i) By the professional accountant; or
  - (ii) By another individual within the professional accountant's [firm](#) or employing organization,  
on which the professional accountant will rely when forming a judgment as part of providing a current service;
- (c) [Advocacy threat](#) – that a professional accountant will promote a client's or employer's position to the point that the professional accountant's [objectivity](#) is compromised;
- (d) [Familiarity threat](#) – that due to a long or close relationship with clients or employers, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

- (e) [Intimidation threat](#) – that a professional accountant will be deterred from acting objectively because of actual or perceived pressures. This includes attempts to exercise undue influence over the professional accountant. (Ref: Para. 100.007(a))

### *Evaluation of Threats*

100.018 Paragraph 100.007 requires that [professional accountants](#) or the firms within which they practice who identify [threats](#) to compliance with the [fundamental principles](#) and, based on an evaluation of those threats, determine that they are not at an [acceptable level](#), then determine whether appropriate [safeguards](#) are available and can be applied to:

- Eliminate the threats; or
- Reduce them to an acceptable level

In making that determination, paragraph 100.008(b) requires the professional accountant to exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be:

- Eliminated; or
- Reduced to an [acceptable level](#) by the application of the safeguards.

100.019 Paragraph 100.008(a) requires a [professional accountant](#) to evaluate any [threats](#) to compliance with the [fundamental principles](#) when the professional accountant knows, or could reasonably be expected to know, of circumstances that may compromise compliance with the fundamental principles.

100.020 Paragraph 100.008(c) requires a [professional accountant](#) to take qualitative as well as quantitative factors into account when evaluating the significance of a [threat](#). When applying the [conceptual framework](#), a professional accountant may encounter situations in which threats cannot be eliminated or reduced to an [acceptable level](#). This may be either because the threat is too significant or because appropriate [safeguards](#) are not available or cannot be applied. In such situations, paragraph 100.007(c) requires the professional accountant to:

- Decline or discontinue the specific [professional service](#) involved; or
- When necessary, resign from the engagement (in the case of a [professional accountant in public practice](#)) or the employing organization (in the case of a [professional accountant in business](#)).

### *Safeguards*

100.021 [Safeguards](#) are actions or other measures that may eliminate [threats](#) or reduce them to an [acceptable level](#). They fall into two broad categories:

- Safeguards created by the profession, legislation or regulation; and
- Safeguards in the work environment. (Ref: Para.100.007(c))

100.022 [Safeguards](#) created by the profession, legislation or regulation include:

- Educational, training and experience requirements for entry into the profession.

- Continuing professional development requirements.
  - Corporate governance.
  - Professional standards.
  - Professional or regulatory monitoring and disciplinary procedures.
  - External review by a legally empowered third party of the reports, returns, communications or information produced by a [professional accountant](#). (Ref: Para.100.007(c)).
- 100.023 (a) [Safeguards](#) available to [professional accountants in business](#) may be in the form of systems and procedures that have been implemented by the organization that employs such professional accountants.
- (b) Such systems and procedures may also be considered by a [professional accountant in public practice](#) in the evaluation of the significance of a specific [threat](#) to [independence](#), as set out in Parts V and VI.
- (c) Professional accountants in public practice also need to rely on the [firm](#)-wide safeguards or engagement-specific safeguards that are available to them in order to comply with the [fundamental principles](#). (Ref: Para. 300.016)
- (d) Parts IV and V of this Code discuss safeguards in the work environment for professional accountants in public practice. Part III discusses safeguards in the work environment for professional accountants in business.
- 100.024 Certain [safeguards](#) may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organization, include:
- Effective, complaint systems operated by;
    - The employing organization;
    - The profession; or
    - A regulator.
  - An explicitly stated duty to report breaches of ethical requirements.

These safeguards enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.

## Section 120

### Objectivity

#### Purpose of this Section

- 120.001 Acting in the public interest requires [professional accountants](#) to act with [objectivity](#). The principle of objectivity obliges all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Professional accountants must be alert to the wide variety of situations that may threaten their objectivity and to which the [conceptual framework](#) applies. It is impracticable to define and prescribe all such situations.
- 120.002 The provisions of paragraphs 100.005 and 100.007 require [professional accountants](#) and the [firms](#) within which they practice to comply with each of the [fundamental principles](#) and to apply the [conceptual framework](#) in relation to [threats](#) to those principles. This section sets out additional requirements in relation to compliance with the fundamental principle of [objectivity](#).

#### Requirements

##### *Specific Threats Related to Objectivity*

- 120.003 A [professional accountant](#) shall not engage in a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity. (Ref: Para.120.005, 006)
- 120.004 When providing any [professional service](#), a [professional accountant](#) shall determine whether there are [threats](#) to compliance with the [fundamental principle](#) of [objectivity](#) resulting from having interests in, or relationships, such as family, close personal, business or other relationships, with a client or its directors, officers or employees. (Ref: Para.120.005)

#### Application and Other Explanatory Material

##### *Threats and Safeguards*

- 120.005 The existence of [threats](#) to [objectivity](#) when providing any [professional service](#) will depend upon the particular circumstances of the engagement and the nature of the work that the [professional accountant](#) is performing. (Ref: Para 120.003, .004)
- 120.006 Examples of [safeguards](#) that may be available to address [threats](#) to [objectivity](#) include:
- Supervisory procedures;
  - Discussing the issue:
    - With higher levels of management within the [firm](#); or
    - With [those charged with governance](#) of the client;
  - Withdrawing from the [engagement team](#); or
  - Terminating the financial or business relationship giving rise to the [threat](#).(Ref: Para. 120.004)

*Objectivity and Independence*

- 120.007 A [professional accountant in public practice](#) who provides an [assurance service](#) is required to be independent of the [assurance client](#). [Independence](#) of mind and in appearance is necessary to enable the [professional accountant](#) to express and be seen to express an objective conclusion. Such a conclusion is one without bias, conflict of interest, or undue influence by others.
- 120.008 Parts V and VI provide specific guidance on [independence](#) requirements for [professional accountants in public practice](#) when performing [assurance engagements](#).

## PART IV - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

### Section 300

#### Introduction

#### Terms used in this section

In this section, the term “[professional accountant](#)” refers to professional accountants in public practice and to the firms within which they practice.

#### Purpose of this Section

- 300.001 This Part of the Code describes how the [conceptual framework](#) contained in Section 100 in certain situations to [professional accountants](#).
- 300.002 There are a wide variety of situations that [professional accountants](#) may face that threaten compliance with the [fundamental principles](#) and to which the [conceptual framework](#) applies.
- 300.003 Paragraphs 100.005 and 100.007 require [professional accountants](#) and the [firms](#) within which they practice to comply with each of the [fundamental principles](#) and apply the [conceptual framework](#) in relation to [threats](#) to those fundamental principles. This section provides guidance for professional accountants regarding complying with those requirements.

#### Application and Other Explanatory Material

- 300.004 This Part does not describe all of the circumstances and relationships that could be encountered by [professional accountants](#) that create or may create [threats](#) to compliance with the [fundamental principles](#). Therefore, professional accountants are encouraged to be alert for such circumstances and relationships.

#### *Conceptual Framework – Threats and Safeguards*

##### Threats

- 300.005 (a) Compliance with the [fundamental principles](#) may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the [threats](#) may differ depending on whether they arise in relation to:
- (i) The provision of services to an [audit client](#) and whether such a client is a [public interest entity](#);
  - (ii) An assurance client that is not an audit client; or
  - (iii) A non-assurance client.
- (b) Threats fall into one or more of the following categories:
- (i) Self-interest;
  - (ii) Self-review;
  - (iii) Advocacy;
  - (iv) Familiarity; and

(v) Intimidation.

These threats are discussed further in paragraphs 100.017 to 100.020 and 300.006 to 300.010 of this Code.

300.006 Examples of circumstances that create [self-interest threats](#) for a [professional accountant](#) include:

- A member of the [assurance team](#) having a [direct financial interest](#) in the [assurance client](#).
- A [firm](#) having undue dependence on total fees from a client.
- A member of the assurance team having a significant close business relationship with an assurance client.
- A firm being concerned about the possibility of losing a significant client.
- A member of the [audit team](#) entering into employment negotiations with the [audit client](#).
- A firm entering into a [contingent fee](#) arrangement relating to an [assurance engagement](#).
- A professional accountant discovering a significant error when evaluating the results of a previous [professional service](#) performed by a member of the professional accountant's firm. (Ref: Para. 300.005)

300.007 Examples of circumstances that create [self-review threats](#) for a [professional accountant](#) include:

- A [firm](#) issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- A firm having prepared the original data used to generate records that are the subject matter of the [assurance engagement](#).
- A member of the [assurance team](#) being, or having recently been, a [director or officer](#) of the client.
- A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.
- The firm performing a service for an [assurance client](#) that directly affects the subject matter information of the assurance engagement. (Ref: Para. 300.005)

300.008 Examples of circumstances that create [advocacy threats](#) for a [professional accountant](#) include:

- The [firm](#) promoting shares in an [audit client](#).
- A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties. (Ref: Para. 300.005)

300.009 Examples of circumstances that create [familiarity threats](#) for a [professional accountant](#) include:

- A member of the [engagement team](#) having a [close](#) or [immediate family](#) member who is a [director or officer](#) of the client.

- A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
- 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](#).
- A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential. (Ref: Para. 300.005)
- Senior personnel having a long association with the [assurance client](#).

300.010 Examples of circumstances that create [intimidation threats](#) for a [professional accountant](#) include:

- A [firm](#) being threatened with dismissal from a client engagement.
- An [audit client](#) indicating that it will not award a planned non-assurance contract to the firm if it continues to disagree with the client's accounting treatment for a particular transaction.
- A firm being threatened with litigation by the client.
- A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the professional accountant agrees with an audit client's inappropriate accounting treatment. (Ref: Para. 300.005)

#### Evaluation of Threats

300.011 Paragraphs 100.005 and 100.007 require [professional accountants](#) and the firms within which they practice to exercise judgment to determine how best to deal with [threats](#) that are not at an [acceptable level](#). This may be by applying [safeguards](#) to eliminate the threat or reduce it to an acceptable level or by terminating or declining the relevant engagement. A professional accountant may take qualitative as well as quantitative factors into account when evaluating the significance of a threat. The professional accountant may consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of safeguards, such that compliance with the [fundamental principles](#) is not compromised. This consideration will be affected by matters such as:

- (a) The significance of the threat;
- (b) The nature of the engagement; and
- (c) The structure of the [firm](#).

300.012 Depending on the nature of the engagement, a [professional accountant](#) may also evaluate the impact, on the significance of a [threat](#), of systems and procedures that the client has implemented. However, it is not possible to rely solely on the existence of such systems and procedures to conclude that a threat is not so significant as to require the application of [safeguards](#) to reduce it to an [acceptable level](#).

300.013 Examples of systems and procedures within the client that may impact the significance of a [threat](#) include:

- The client requires 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 ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

#### Safeguards

300.014 [Safeguards](#) that may eliminate or reduce [threats](#) to an [acceptable level](#) fall into two broad categories, those:

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

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.024 of this Code.

300.015 In the work environment, the relevant [safeguards](#) will vary depending on the circumstances. Work environment safeguards comprise [firm](#)-wide safeguards and engagement-specific safeguards. Firm-wide safeguards address [threats](#) to the [independence](#) of the firm and its members on an overall basis, but they may not be sufficient to address a specific threat in relation to a specific engagement.

300.016 Examples of [firm](#)-wide [safeguards](#) in the work environment include:

- Leadership of the [firm](#) that stresses the importance of compliance with the [fundamental principles](#).
- Leadership of the firm that establishes the expectation that members of an [assurance team](#) will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the need to:
  - Identify [threats](#) to compliance with the fundamental principles;
  - Evaluate the significance of those threats; and

- Apply safeguards to eliminate or reduce the threats to an [acceptable level](#) or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm or members of [engagement teams](#) and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an [assurance client](#).
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Advising partners and professional staff of assurance clients and related entities from which [independence](#) is required.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

300.017 Examples of engagement-specific [safeguards](#) in the work environment include:

- Having a [professional accountant](#) who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having a professional accountant who was not a member of the [assurance team](#) review the assurance work performed or otherwise advise as necessary.
- Consulting an independent third party, such as:
  - A committee of independent directors;
  - A professional regulatory body; or
  - Another professional accountant.
- Discussing ethical issues with [those charged with governance](#) of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Involving another [firm](#) to perform or re-perform part of the engagement.

- Rotating senior assurance team personnel.

## Networks and Network firms

Terms used in this section

In this section, the term “[professional accountant](#)” refers to professional accountants in public practice and to the firms within which they practice.

### Purpose of this Section

300.100 To enhance their ability to provide [professional services](#), [firms](#) frequently form larger structures with other firms and entities. The formation of such larger structures may result in the creation of [networks](#) and [network firms](#). In some circumstances, interests and relationships between a client of a firm and another entity in the firm’s network may be relevant to compliance with the [fundamental principle](#) of [objectivity](#) and the related concept of [independence](#). This section establishes requirements and provides guidance for firms and [professional accountants](#) with respect to determining whether an entity that is part of such a larger structure constitutes a network firm.

### Requirements

- 300.101 When associated with a larger structure of other [firms](#) and entities, a firm shall:
- (a) Use 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, weighing all the specific facts and circumstances, 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. (Ref: Para 300.103 to .113)
- 300.102 An entity that is a [network firm](#), irrespective of whether that entity itself meets the definition of a [firm](#), shall be independent of any [audit clients](#) of the other firms within the [network](#), unless an exception is otherwise provided by this Code. (Ref: Para. 300.103)

### Application and Other Explanatory Material

- 300.103 The [independence](#) requirements in this section that apply to a [network firm](#) apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a [firm](#). (Ref: Para. 300.102)

### General Provisions

- 300.104 Whether the larger structures that are established by [firms](#) 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. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, where a larger structure is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources the larger structure is a network. (Ref: Para. 300.101)

- 300.105 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is a [network](#). However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a [firm](#) and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network. (Ref: Para. 300.101)
- 300.106 Where the larger structure is aimed at co-operation and the entities within the structure share common ownership, control or management, it is a [network](#). This could be achieved by contract or other means. (Ref: Para. 300.101)
- 300.107 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is a [network](#). For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure. (Ref: Para. 300.101)
- 300.108 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is a [network](#). Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a [network firm](#) merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a [professional service](#). (Ref: Para. 300.101)
- 300.109 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is a [network](#). A common brand name includes common initials or a common name. A [firm](#) is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report. (Ref: Para. 300.101)
- 300.110 Even though a [firm](#) does not belong to a [network](#) and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network. (Ref: Para. 300.101)
- 300.111 If a [firm](#) sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not [network firms](#). However, applying the conceptual framework requires those entities to determine how to disclose that they are not network firms when presenting themselves to outside parties. (Ref: Para. 300.101)
- 300.112 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is a [network](#). Professional resources include:
- Common systems that enable [firms](#) to exchange information such as client data, billing and time records.
  - Partners and staff.

- 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. 300.101)

300.113 The determination of whether the professional resources shared are significant, and therefore the [firms](#) are [network firms](#), is made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. 300.101)

## Identifying responsibility for firms

### Terms used in this section

In this section, the term “[professional accountant](#)” refers to professional accountants in public practice and to the firms within which they practice.

### Purpose of this Section

300.200 [Professional accountants in public practice](#) frequently practice as members of [firms](#). In addition to the continuing responsibility for such professional accountants to comply with this Code on an individual basis, the firms within which they practice are also obligated to comply with this Code. This section sets out the requirements that apply, and guidance in relation, to the process by which firms establish responsibility for compliance with this Code by the firm and those individuals within it.

### Requirements

300.201 A [firm](#) shall implement, establish and maintain policies and procedures, appropriately documented and communicated within the firm, to:

- (a) Enable identification of individuals with appropriate authority who, in particular circumstances, are responsible for compliance with this Code by the firm;
- (b) Maintain compliance with this Code by all individuals within the firm and, as applicable, their [immediate](#) and [close family](#); and
- (c) Require all individuals within the firm to communicate [threats](#) to [independence](#) to those individuals who are responsible for compliance with this Code by the firm in order that such individuals may take appropriate action on behalf of the firm to comply with this section. (Ref: Para. 300.202)

### Application and Other Explanatory Material

300.202 Paragraph 300.201 requires the [firm](#) to establish and maintain policies and procedures to enable identification of those individuals who are responsible for the firm's compliance with the provisions of this Code. Such responsible individuals may include:

- (a) The [engagement partner](#).
- (b) Senior individuals responsible for ethics or [independence](#) matters for the firm.
- (c) Any other individual within the firm identified as a responsible individual in relation to a particular matter.

300.203 Policies that enable identification of responsible individuals may differ depending on the size, structure and organization of a [firm](#). (Ref: Para. 300.201) In addition, *International Standards on Auditing* (ISAs) require the [engagement partner](#) to form a conclusion on compliance with the [independence](#) requirements that apply to the engagement

## SECTION 310

### Professional Appointment

#### Terms used in this section

In this section, the term “[professional accountant](#)” refers to a [professional accountant in public practice](#) and to the firms within in which such professional accountants practice.

#### Purpose of this Section

- 310.001 [Professional accountants](#) may encounter circumstances in relation to their appointments as [professional service](#) providers that create [threats](#) to their compliance with each of the [fundamental principles](#).
- 310.002 There are a wide variety of situations that may threaten compliance with the [fundamental principles](#) and to which the [conceptual framework](#) applies, when a [professional accountant](#) is involved in a change in professional appointment or in accepting a new client or engagement.
- 310.003 The provisions of Paragraphs 100.005 and 100.007 require [professional accountants](#) and the firms within which they practice to comply with each of the [fundamental principles](#) and apply the [conceptual framework](#) in relation to [threats](#) to those fundamental principles. This section sets out additional requirements and provides guidance related to professional appointments.

#### Requirements

##### *Specific Threats Related to Professional Appointments*

- 310.004 A [professional accountant](#) shall evaluate the significance of any [threat](#) to compliance with the [fundamental principles](#) that may be created by the following circumstances and apply [safeguards](#) when necessary to eliminate any such threat or reduce it to an [acceptable level](#):
- (a) Acceptance of any new professional engagement (Ref: Para. 310.009); or
  - (b) When acceptance of a professional engagement requires reliance on the advice or work of an expert. (Ref: Para. 310.011)
- 310.005 (a) When a [professional accountant](#) is asked by a potential client to replace, consider tendering for an engagement held by, or undertake work that is complementary or additional to that of another professional accountant, the proposed professional accountant shall:
- (i) Determine whether there are any reasons, professional or otherwise, for not accepting the engagement; and (Ref: Para. 310.012)
  - (ii) Whenever possible, obtain the potential client's permission, preferably in writing, to initiate discussion with the existing professional accountant; (Ref: Para. 310.013 to .017)
- (b) In such circumstances, an existing professional accountant shall:
- (i) Comply with relevant legal and other regulations governing such requests; and
  - (ii) Provide any such information honestly and unambiguously.

- (c) When unable to communicate with the [existing accountant](#), the proposed professional accountant shall take other reasonable steps to obtain information about any possible [threats](#) to compliance with the [fundamental principles](#).

## Application and Other Explanatory Material

### *Client Acceptance and Continuance*

#### Conceptual Framework – Threats and Safeguards

- 310.006 Acceptance of a new client relationship may create [threats](#) to compliance with the [fundamental principles](#). Potential threats to [integrity](#) or [professional behavior](#) may be created from, for example, questionable issues associated with the client (its owners, management or activities).
- 310.007 Client issues that, if known, could threaten compliance with the [fundamental principles](#) include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.
- 310.008 Examples of [safeguards](#) that may be available to address any such [threat](#) include:
- Obtaining knowledge and understanding of the client, its owners, managers and [those charged with governance](#) and business activities;
  - Securing the client's commitment to improve corporate governance practices or internal controls; or
  - Periodically reviewing acceptance decisions for recurring client engagements.

### *Engagement Acceptance*

#### Conceptual Framework – Threats and Safeguards

- 310.009 The [fundamental principle](#) of [professional competence and due care](#) requires [professional accountants](#) to provide only those services that they are competent to perform. Before accepting a specific client engagement, paragraph 310.004 requires a professional accountant to determine whether acceptance would create any [threats](#) to compliance with the fundamental principles. For example, a [self-interest threat](#) to professional competence and due care is created if the [engagement team](#) does not possess, or acquire, the relevant competencies. (Ref: Para. 310.004(a))
- 310.010 Examples of [safeguards](#) that may be available to address any such [threat](#) include:
- Acquiring an appropriate understanding of:
    - The nature of the client's business;
    - The complexity of its operations;
    - The specific requirements of the engagement; and
    - The purpose, nature and scope of the work to be performed.
  - Acquiring knowledge of relevant industries or subject matters.
  - Possessing or obtaining experience with relevant regulatory or reporting requirements.
  - Assigning sufficient staff with the necessary competencies.

- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.
- Using experts where necessary. (Ref: Para.310.004(a))

310.011 Factors to consider when a [professional accountant](#) intends to rely on the advice or work of an expert include:

- Reputation.
- Expertise.
- Resources available and applicable professional and ethical standards.

Such information may be gained from prior association with the expert or from consulting others. (Ref: Para. 310.004(b))

### *Changes in a Professional Appointment*

#### Conceptual Framework – Threats and Safeguards

310.012 Paragraph 310.005 requires a [professional accountant](#) who is asked to replace another accountant, or who is considering tendering for an engagement currently held by another accountant, to determine whether there are any reasons, professional or otherwise, for not accepting the engagement. These may be circumstances that create [threats](#) to compliance with the [fundamental principles](#) that cannot be eliminated or reduced to an [acceptable level](#) by the application of [safeguards](#). For example, there may be a threat to [professional competence and due care](#) if professional accountant accepts the engagement before knowing all the relevant facts. (Ref: Para. 300.005)

310.013 Depending on the nature of the engagement, direct communication with the [existing accountant](#) to establish the facts and circumstances regarding the proposed change may be necessary. Such communication may be necessary to permit or [professional accountant](#) to decide whether it would be appropriate to accept the engagement. For example, the apparent reason for the change in appointment may not fully reflect the facts. It may indicate disagreements with the existing accountant that may influence the decision to accept the appointment (Ref: Para. 310.005(a))

310.014 Examples of [safeguards](#) that may be available to address any such [threat](#) include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the [existing accountant](#) will be requested. This is so that inquiries may be made whether there are any reasons why the appointment should not be accepted;
- Asking the existing accountant to provide information on any facts or circumstances that the proposed professional accountant, in the existing accountant's opinion, needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources. (Ref: Para. 310.005(a))

- 310.015 A **professional accountant** may be asked to undertake work that is complementary or additional to the work of the **existing accountant**. Such circumstances may create **threats** to **professional competence and due care** resulting from, for example, a lack of or incomplete information. An example of a safeguard is notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work. (Ref: Para. 310.005(a))
- 310.016 An **existing accountant** is bound by **confidentiality**. Whether such a **professional accountant** is permitted or required to discuss the affairs of a client with a proposed professional accountant will depend on the nature of the engagement and on:
- (a) Whether the client's permission to do so has been obtained; or
  - (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction. (Ref: Para. 310.005(b))
- 310.017 Circumstances where the **professional accountant** is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of this Code.

## PART V - INDEPENDENCE IN RELATION TO AUDIT AND REVIEW ENGAGEMENTS

### SECTION 400

#### Introduction

#### Terms used in this section

In this section, the term(s)

- (a) “**Audit**”, “**audit team**”, “**audit engagement**”, “**audit client**” and “**audit report**” include review, [review team](#), [review engagement](#), [review client](#) and review report;
- (b) “**client**” includes [related entities](#) of the [client](#),
- (c) “**network firm**” includes the [firm](#) that will express an opinion on the financial statements and members of the network of which it forms a part; and
- (d) “**professional accountant**” refers to [professional accountants in public practice](#) and the [firms](#) within which they practice.

#### Scope

400.000 Paragraphs 400.001 to 499.999 set out requirements and provide guidance for [professional accountants in public practice](#) and the [firms](#) within which they practice with respect to maintaining [independence](#) when performing [audit engagements](#).

#### Purpose of this Section

- 400.001 In order to serve the public interest, [professional accountants](#) and the [firms](#) within which they practice need to be independent of their [audit clients](#).
- 400.002 There are a wide variety of situations that may threaten compliance with the [fundamental principles](#) and to which the [conceptual framework](#) applies.
- 400.003 Paragraphs 100.005 and 100.007 require [professional accountants](#) and the [firms](#) within which they practice to comply with each of the [fundamental principles](#) and apply the [conceptual framework](#) in relation to [threats](#) to those fundamental principles. This section sets out additional requirements and provides guidance related to achieving and maintaining [independence](#) when performing [audit engagements](#).

#### Requirements

##### *General Requirements*

- 400.004 When performing an [audit engagement](#), a [professional accountant](#) shall:
  - (a) Be independent of the [audit client](#); and
  - (b) Comply with each of the provisions of Part V.
- 400.005 In applying the provisions of Paragraphs 100.005 and 100.007 when performing an [audit engagement](#), a [professional accountant](#) shall:
  - (a) When evaluating the significance of [threats](#) to [independence](#), take qualitative as well as quantitative factors into account;

- (b) When a determination has been made that the threats are not at an [acceptable level](#), and the decision to be made is whether to accept an engagement or include a particular individual on the [audit team](#), determine whether [safeguards](#) are available to eliminate the threats or reduce them to an acceptable level;
- (c) When the decision is whether to continue an audit engagement, determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated; and
- (d) Whenever new information about a threat to independence comes to the attention of the professional accountant during an audit engagement, evaluate the significance of that threat in accordance with the [conceptual framework](#) approach.

## Application and Other Explanatory Material

### *Structure of Section*

400.006 This section addresses the independence requirements for [audit engagements](#). These engagements are [assurance engagements](#) in which a [professional accountant](#) expresses a conclusion on [financial statements](#). Such engagements comprise audit engagements to report on a complete set of financial statements or on a single financial statement. Independence requirements for assurance engagements that are not audit engagements are addressed in Part VI.

### *Reports with Restricted Use and Distribution*

400.007 In certain circumstances, an [audit](#) report may include a restriction on use and distribution. In such circumstances, the [independence](#) requirements in this section may be modified as provided in paragraphs 470.000 to 470.999, provided that the conditions set out in those paragraphs are also met. Such modifications are not permitted in the case of an [audit](#) of [financial statements](#) required by law or regulation.

### *A Conceptual Framework Approach to Independence*

400.008 [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. This allows 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, weighing all the specific facts and circumstances, that a [professional accountant](#)'s, or a member of the [audit team](#)'s, integrity, objectivity or professional skepticism has been compromised.

400.009 Paragraphs 100.005 and 100.007 require [professional accountants](#) and the firms within which they practice to use professional judgment to apply the [fundamental principles](#) and the [conceptual framework](#) approach to:

- (a) Identify [threats](#) to [independence](#);
- (b) Evaluate the significance of the [threats](#) identified; and
- (c) Either apply [safeguards](#), when necessary, to eliminate the threats or reduce them to an [acceptable level](#) or, when the threats cannot be eliminated or reduced to an acceptable level:
  - (i) Eliminate the circumstance or relationship creating the threats; or
  - (ii) Decline or terminate the [audit engagement](#).

Paragraph 400.005 sets out additional specific requirements regarding the evaluation of threats to [independence](#) when performing an audit engagement.

400.010 Many different circumstances may be relevant in assessing [threats](#) to [independence](#). It is impossible to define every situation that creates threats to independence and to specify the appropriate action. Therefore, this Code establishes a [conceptual framework](#) that requires [professional accountants](#) and members of [audit teams](#) to identify, evaluate, and address threats to independence. The conceptual framework approach assists professional accountants in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.

## 420 - Business Relationships

### Terms used in this section

In this section, the term(s)

- (a) “**Audit**”, “**audit team**”, “**audit engagement**”, “**audit client**” and “**audit report**” include review, review team, review engagement, review client and review report;
- (b) “**client**” includes [related entities](#) of the [client](#),
- (c) “**network firm**” includes the [firm](#) that will express an opinion on the financial statements and members of the network of which it forms a part, and
- (d) “**professional accountant**” refers to [professional accountants in public practice](#) and the [firms](#) within which they practice.

### Purpose of this Section

- 420.001 A close business relationship between [professional accountants](#), or those who have relationships with them, and an [audit client](#) or its management, arises from a commercial relationship or common [financial interest](#). Such a close business relationship may create [self-interest](#) or [intimidation threats](#) that impair [objectivity](#). It may also compromise the proper exercise of professional judgment and skepticism that is necessary to maintain [independence](#) from the [client](#).
- 420.002 There are a wide variety of situations related to business relationships that may threaten compliance with the [fundamental principles](#).
- 420.003 Paragraphs 100.005 and 100.007 require [professional accountants](#) and the firms within which they practice to comply with each of the [fundamental principles](#) and apply the [conceptual framework](#) in relation to [threats](#) to those fundamental principles. This section sets out additional requirements and provides guidance related to business relationships.

### Requirements

#### *Business Relationships Specifically Identified as Threats*

- 420.004 A [firm](#) shall evaluate the significance of any threat created by the following relationships and apply [safeguards](#) when necessary to eliminate the threat or reduce it to an [acceptable level](#):

#### Immediate Family Relationships

- (a) When an [immediate family](#) member of the member of the [audit team](#) has a [close business relationship](#) with an [audit client](#) of the firm or its management (Ref: Para. 420.007);

#### Purchase of Goods or Services

- (b) When a [network firm](#), or a member of the [audit team](#) or a member of that individual’s [immediate family](#), enters into a transaction to purchase goods or services from an audit client of the firm and the transaction is:
  - (i) Not at arm’s length;

- (ii) Not in the normal course of business; or
- (iii) Of such a nature or magnitude that it creates a [self-interest threat](#). (Ref: Para. 420.008)

### *Business Relationships Specifically not Permitted*

#### Firm or Audit Team Member Relationships

420.005 A [network firm](#) or a member of the [audit team](#) shall not have a close business relationship with:

- (a) An [audit client](#) of the [firm](#); or
- (b) Its management,

unless the [financial interest](#) is immaterial and the business relationship is insignificant to the network firm or the audit team member, as the case may be, and the [client](#) or its management.

#### Common Interests in Closely-Held Entities

420.006 A [network firm](#), a member of the [audit team](#) or a member of that individual's [immediate family](#) shall not have a business relationship involving the holding of an interest in a closely-held entity when:

- (a) The [audit client](#) of the [firm](#); or
- (b) A [director](#) or [officer](#) of the audit client; or
- (c) Any group thereof,

also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the network firm, the member of the audit team and the immediate family member, and the audit 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.

### **Application and Other Explanatory Material**

#### *Immediate Family Relationships*

420.007 Examples of a close business relationship between a [network firm](#), a member of the [audit team](#), or a member of that individual's [immediate family](#) and the [audit client](#) or its management, arising from a commercial relationship or common [financial interest](#) include:

- Having a financial interest in a joint venture with either the audit 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 a network firm with one or more services or products of the audit client and to market the package with reference to both parties.

- Distribution or marketing arrangements under which a network firm distributes or markets the audit client's products or services; or that client distributes or markets a network firm's products or service. (Ref: Para. 420.004(a))

*Purchase of Goods or Services*

420.008 The purchase of goods or services from an [audit client](#) by a [network firm](#), a member of the [audit team](#), or a member of that individual's immediate family, does not generally create a [threat](#) to [independence](#) if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a [self-interest threat](#). Paragraph 420.004(b) requires the [firm](#) to evaluate the significance of any [threat](#) and apply [safeguards](#) when necessary to eliminate the threat or reduce it to an [acceptable level](#). Examples of such safeguards include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the [audit team](#). (Ref: Para. 420.004(b))

## 440.300 – Valuation Services

### Terms used in this section

In this section, the term(s)

- (a) “**Audit**”, “**audit team**”, “**audit engagement**”, “**audit client**” and “**audit report**” include review, review team, review engagement, review client and review report;
- (b) “**client**” includes [related entities](#) of the client;
- (c) “**network firm**” includes the [firm](#) that will express an opinion on the financial statements and members of the network of which it forms a part; and
- (d) “**professional accountant**” refers to professional accountants in public practice and the firms within which they practice.

### Purpose of this Section

- 440.301 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole. Performing a valuation service for an [audit client](#) may create a [self-review threat](#) that impairs [objectivity](#) and compromises the proper exercise of professional judgment and skepticism necessary to maintain [independence](#) from the audit client.
- 440.302 There are a wide variety of situations related to the performance of a valuation service for an [audit client](#) that may threaten compliance with the [fundamental principles](#).
- 440.303 Paragraphs 100.005 and 100.007 require [professional accountants](#) and the firms within which they practice to comply with each of the [fundamental principles](#) and apply the [conceptual framework](#) in relation to [threats](#) to those fundamental principles. This section sets out additional requirements and provides guidance related to the performance of a valuation service for an [audit client](#). When the purpose of a valuation service is to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the [financial statements](#), the provisions included in paragraph 400.999 apply.

### Requirements

#### *Valuation Services Specifically not Permitted*

Audit Clients that are not Public Interest Entities

- 440.304 A [network firm](#) shall not provide a valuation service for an [audit client](#) of the [firm](#) when the [client](#) is not a [public interest entity](#) if:
- (a) The valuation service has a material effect on the [financial statements on which the firm will express an opinion](#); and
  - (b) The valuation involves a significant degree of subjectivity. (Ref: Para. 440.307)

Audit Clients that are Public Interest Entities

440.305 A [network firm](#) shall not provide a valuation service to an [audit client](#) of the [firm](#) when the [client](#) is a [public interest entity](#) if the valuation service would have a material effect, separately or in the aggregate, on the [financial statements on which the firm will express an opinion](#).

**Application and Other Explanatory Material**

*General Provisions*

440.306 Whether performing a valuation service for an [audit client](#) creates a [self-review](#) or other [threat](#) will depend on factors such as:

- Whether the valuation will have a material effect on the [financial statements](#).
- The extent of the [client](#)'s involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The availability of established methodologies and professional guidelines.
- For a valuation involving standard or established methodologies, the degree of subjectivity inherent in the item.
- The reliability and extent of the underlying data.
- Whether the degree of dependence on future events could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the financial statements.

Applying the [conceptual framework](#) approach requires the significance of any [threat](#) created to be evaluated by the [firm](#) and [safeguards](#) applied when necessary to eliminate the [threat](#) or reduce it to an [acceptable level](#). Examples of such safeguards include:

- Having a professional who was not involved in providing the valuation service perform a review of the audit or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the [audit engagement](#).

*Significant Degree of Subjectivity*

440.307 Paragraph 440.304 recognizes that certain valuations do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are either established by law or regulation or are widely accepted, and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different. (Ref: Para. 440.304(b))

**Question**

12. Do you have any comments on the illustrative examples?

IX. Table of Concordance

<b>Table of Concordance – Restructured Code Examples (August 2014) compared to July 2014 Code</b>				
<b>Restructured</b>		<b>July 2014</b>		<b>Comments</b>
000	.001			New
000	.002			New
000	.003			New
000	.004			New
000	.005	100	.2	
000	.006			New
000	.007			New
000	.008	100	.2	
000	.009	100	.2	
000	.010	100	.3	
000	.011	100	.4	
000	.012	100	.11	
000	.013			New
000	.014			New
000	.015			New
000	.016			New
000	.017			New
000	.018			New
000	.019			New
000	.020			New
100	.001	100	.1	First part of existing 100.1 included here/new purpose paragraph
100	.002			New purpose paragraph
100	.003	100	.1	Last part of existing 100.1 included here
100	.004	100	.10	
100	.005	100	.5	
100	.006	100	.20 .21, .24	
100	.007	100	.7, .9	
100	.008	100	.7, .8, .9	
100	.009	100	.5	
100	.010	100	.19	
100	.011	100	.20	
100	.012	100	.22	
100	.013	100	.23	
100	.014	100	.23	

<b>Table of Concordance – Restructured Code Examples (August 2014) compared to July 2014 Code</b>				
<b>Restructured</b>		<b>July 2014</b>		<b>Comments</b>
100	.015	100	.6	
100	.016	100	.6	
100	.017	100	.12	
100	.018	100	.7	
100	.019	100	.8	
100	.020	100	.9	
100	.021	100	.13	
100	.022	100	.14	
100	.023	100	.15	New explanatory language added to existing 100.15
100	.024	100	.16	
		100	.17	To be addressed with conflicts of interest section
		100	.18	To be addressed with conflicts of interest section
		100	.25	To be addressed with “those charged with governance”
120	.001	120	.1, .2	
120	.002			New
120	.003	120	.2	
120	.004	280	.1	Existing section 280 has been incorporated into the overall "objectivity" section 120
120	.005	280	.3	
120	.006	280	.4	
120	.007	280	.2	
120	.008	280	.2	
300	.001	200	.1	
300	.002	200	.1	
300	.003			Purpose and link to requirement to comply with Fundamental Principles (FP) & Conceptual Framework (CF)
300	.004	200	.1	
300	.005	200	.3	
300	.006	200	.4	
300	.007	200	.5	
300	.008	200	.6	
300	.009	200	.7	
300	.010	200	.8	
300	.011	200	.10	
300	.012	200	.14	

<b>Table of Concordance – Restructured Code Examples (August 2014) compared to July 2014 Code</b>				
<b>Restructured</b>		<b>July 2014</b>		<b>Comments</b>
300	.013	200	.15	
300	.014	200	.9	
300	.015	200	.11	Last sentence is new to clarify the need for engagement-specific as well as firm-wide safeguards
300	.016	200	.12	
300	.017	200	.13	
		200	.2	Existing paragraph deleted - covered by requirement to comply
300	.100	290	.14	
300	.101	290	.15	
300	.102	290	.13	
300	.103	290	.13	
300	.104	290	.14	
300	.105	290	.16	
300	.106	290	.17	
300	.107	290	.18	
300	.108	290	.19	
300	.109	290	.20	
300	.110	290	.21	
300	.111	290	.22	
300	.112	290	.23	
300	.113	290	.24	
300	.200			New “identifying responsibility for firms”
300	.201	290	.12	New - based on 290.12, but restated to include specific requirements
300	.202	290	.12	New - based on 290.12, but restated to include specific guidance
300	.203	290	.12	New - based on 290.12, but restated to include specific
310	.001			New purpose paragraph
310	.002			New purpose paragraph
310	.003			Purpose and link to requirement to comply with FP & CF
310	.004	210	.1, .3, .6, .8	
310	.005	210	.9, .12, .14	
310	.006	210	.1	
310	.007	210	.2	

<b>Table of Concordance – Restructured Code Examples (August 2014) compared to July 2014 Code</b>				
<b>Restructured</b>		<b>July 2014</b>		<b>Comments</b>
310	.008	210	.3, .5	
310	.009	210	.6	
310	.010	210	.7	
310	.011	210	.8	
310	.012	210	.9	
310	.013	210	.10	
310	.014	210	.11	
310	.015	210	.12	
310	.016	210	.13	
310	.017	210	.13	
		210	.4	Existing paragraph deleted - requirement to decline is included in compliance with CF in 100.007
400	.000			New scope paragraph
400	.001	290	.4	
400	.002			New purpose paragraph
400	.003	290	.5, .7	Purpose and link to requirement to comply with FP & CF
400	.004	290	.4	Restated to specifically require independence and compliance with
400	.005	290	.10, .11	
400	.006	290	.1	
400	.007	290	.2	
400	.008	290	.6	
400	.009	290	.7	
400	.010	290	.8	
		290	.3	Existing paragraph is now incorporated into “Terms used in this section” at the beginning of each section
		290	.9	Deleted – not necessary in new structure
		290	.12	Firm responsibility now set out in 300.200
420	.001	290	.123	New purpose paragraph
420	.002			New purpose paragraph
420	.003			Purpose and link to requirement to comply with FP & CF
420	.004	290	.123, .125	
420	.005	290	.123	
420	.006	290	.124	
420	.007	290	.123	

<b>Table of Concordance – Restructured Code Examples (August 2014) compared to July 2014 Code</b>				
<b>Restructured</b>		<b>July 2014</b>		<b>Comments</b>
420	.008	290	.125	
440	.301	290	.172	New purpose paragraph
440	.302			New purpose paragraph
440	.303	290	.175	Purpose and link to requirement to comply with FP & CF
440	.304	290	.176	
440	.305	290	.177	
440	.306	290	.173	
440	.307	290	.174	