IESBA Code of Ethics

Independence Provisions Applicable to Audits of Public Interest Entities

Introduction to the Code and overview of the prohibitions.

Please note that line references have been included in this document to facilitate the IESBA's discussion

Introduction

The IESBA Code of Ethics (the “Code”) establishes the fundamental principles of professional ethics, with which firms and professional accountants comply and addresses the independence requirements for audit engagements. The Code provides a conceptual framework that the accountant is required to apply to (i) identify threats to independence; (ii) evaluate the significance of the threats, and (iii) apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. The Code also prohibits certain interests and relationships because the threats created would be such that no safeguards could reduce the threats to an acceptable level.

The principles-based approach in the conceptual framework, including the absolute prohibitions, protects the public interest more satisfactorily than solely a detailed list of rules. The conceptual framework addresses all situations and requires the professional accountant to apply professional judgment to actively consider the facts and circumstances faced. A strength of the Code lies in the fact that an interest or relationship cannot be considered permissible simply because it is not prohibited. If a situation is not described in the Code, the conceptual framework is to be applied in evaluation the threat to independence.

The Code specifically addresses the independence provisions that apply to the audits of public interest entities (PIEs)[1]. The Code identifies the circumstances and relationships that are:

1. Prohibited;
2. Permitted only if certain conditions exist or specified safeguards are applied;
3. Specifically identified in the Code as requiring an analysis of threats and application of safeguards when necessary.

This summary document identifies, at a high level, those interests or relationships that are either prohibited or are permitted only if certain conditions exist or specified safeguards are applied.

Summary of prohibitions

Prohibitions apply to:

Interests and relationships of individuals and the firm

Financial interests of the firm and of the audit team, partners in the engagement office, and partners and managerial employees who provide non-audit services in the audit client, and in certain cases, their related entities[2].

Financial interests of the above in an entity in which the audit client also has an interest.

[1] PIEs are listed entities and any entity defined by regulation or legislation as a PIE or for which the audit is required to be conducted in compliance with the independence requirements applicable to audits of listed entities.

[2] Prohibitions and provisions of the Code also apply to the individual’s immediate family members (unless otherwise stated).

Financial interests held by the above as a trustee in the audit client, and in certain cases, their related entities, if the interest is material to the trust.

Loans to an audit team member or the firm (a) from an audit client that is a bank or similar institution that has not been made under normal lending procedures, terms and conditions and (b) from an audit client that is a not a bank or similar institution and is material to either party.

Loans by an audit team member or the firm to an audit client that are material to either party.

Deposits by an audit team member or the firm with a bank, broker or similar institution that are not held under normal commercial terms.

Close business relationships with an audit client or its management if, in the case of the firm, any financial interest is material or the business relationship is significant to the firm or the client or its management and, in the case of the audit team member, any financial interest is material or the business relationship is significant to the member of the audit team.

Audit team members having an immediate family member who is a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the audit client's accounting records or financial statements, or was in such a position during any period covered by the engagement or the financial statements.

Former audit team members or a partner of the firm joining an audit client if significant connections remain with the firm.

A "key audit partner" or the firm's senior or managing partner joining an audit client unless a defined period of time has elapsed.

An individual being on the audit team if they served, during the period covered by the audit report, as a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements.

Partners and employees being a director or officer of any firm audit client.

The time that a key audit partner can fulfil that role for an audit engagement (seven years, with two years off).

Non assurance services

The following non-assurance services are prohibited:

- Assuming a management responsibility.
- Subject to an exception for emergency situations, providing accounting and bookkeeping services, including payroll services, and preparing the financial statements (and related financial information).

- Valuation services that are material, separately or in the aggregate, to the financial statements.
- Preparing tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements.
- Providing certain tax and corporate finance advice where the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements, over which there is reasonable doubt, and which are material to the financial statements.
- Acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter that is material to the financial statements.
- Providing internal audit services that relate to:
    a. A significant part of the internal controls over financial reporting;
    b. Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements; or
    c. Amounts or disclosures that are, separately or in the aggregate, material to the financial statements.
- Designing or implementing IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements.
- Estimating damages or other amounts, as part of litigation support services, that are material to the financial statements.
- Acting in an advocacy role for the client in resolving a dispute or litigation when the amounts involved are material to the financial statements.
- A partner or employee accepting an appointment as General Counsel.
- Negotiating on the client's behalf in recruitment activities.
- Certain executive recruitment services with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements.
- Providing corporate finance services involving promoting, dealing in, or underwriting the client's shares.

Other Matters

A contingent fee must not be charged, directly or indirectly, in respect of an audit engagement, or for non-assurance services where certain conditions exist

A key audit partner must not be evaluated or compensated based on that partner's success in selling non-assurance services to the partner's audit client.

A firm or audit team member must not accept gifts or hospitality from an audit client (unless the value is trivial and inconsequential).

Overarching Provisions

Engagement Period

Independence is required both during the engagement period and the period covered by the financial statements.

Networks

All network firms are required to be independent of the audit clients of the other firms within the network.

Related Entities

The Code's provisions apply to all related entities of listed audit clients. In the case of other audit clients, they apply to related entities that are controlled by the client and in some situations to other related entities.

Communication with Those Charged with Governance

Regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence.

Documentation

The professional accountant is required to document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions and:

- When safeguards are required, the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level.
- When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the nature of the threat and the rationale for the conclusion.