

**Structure of the Code—Plain English Examples**

**Plain English Example 1**

Original Code	Plain English
<p><b>Conflicts of Interest</b></p> <p>220.1 A professional accountant in public practice may be faced with a conflict of interest when performing a professional service.<sup>2</sup> A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:</p> <ul style="list-style-type: none"> <li>• The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or</li> <li>• The interests of the professional accountant with respect to a particular matter and the interests of the client for whom the professional accountant provides a professional service related to that matter are in conflict.</li> </ul> <p>A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.</p> <p>When the professional service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Sections 290 or 291 as appropriate.</p>	<p><b>Conflicts of Interest</b></p> <p>220.1 As a professional accountant, you shall never allow a conflict of interest to compromise your professional or business judgment.</p> <p>When you are providing professional assurance services of any kind, you must comply with the fundamental principle of objectivity, which requires being independent of your assurance clients, in accordance with Sections 290 or 291 of this Code.</p> <p>If you are in public practice, you could run into a conflict of interest while performing your professional services.<sup>12</sup> A conflict of interest can threaten your objectivity as well as some of the other fundamental principles. Such threats may be the result of:</p> <ul style="list-style-type: none"> <li>• providing a particular professional service for two or more clients whose interests related to that service conflict; or</li> <li>• performing a service involving a business matter where your interests in that matter and the interests of your client conflict.</li> </ul>

<sup>2</sup> **Revised Definition:** Professional Services: Professional activities performed for clients.

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<p><b>Conflicts of Interest</b></p> <p>220.12 Where a professional accountant in public practice has requested explicit consent from a client and that consent has been refused by the client, the professional accountant shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards if necessary.</p>	<p><b>Conflicts of Interest</b></p> <p>220.12 If you have requested explicit consent from a client and that consent has been refused, you shall immediately discontinue or refuse to perform any professional services that create the conflict of interest. Another option is to terminate all relevant relationships or dispose of all relevant interests to eliminate the threat or reduce it to an acceptable level, so that you can get that required explicit consent.</p>
<p><b>Conflicts of Interest</b></p> <p>310.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in business shall exercise professional judgment and be alert to all interests and relationships that 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 might compromise compliance with the fundamental principles.</p> <p>310.4 When addressing a conflict of interest, a professional accountant in business is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another professional accountant. When making disclosures or sharing information within the employing organization and seeking guidance of third parties, the professional accountant shall</p>	<p><b>Conflicts of Interest</b></p> <p>310.3 When identifying and evaluating any potential interests and relationships that might create a conflict of interest, and implementing appropriate safeguards to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, you shall exercise professional judgment and be alert to all interests and relationships that a reasonable and informed third party, weighing all the specific facts and circumstances available at the time, would likely conclude might compromise compliance with the fundamental principles.</p> <p>310.4 When dealing with a conflict of interest issue, you should either ask your employers for advice or ask others, such as a professional body, legal counsel or another professional accountant, for their opinion. When you share information with your employers, or look for guidance from third parties, you shall keep the fundamental principle of confidentiality topmost in your mind.</p>

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<p>remain alert to the fundamental principle of confidentiality.</p> <p>310.5 If the threat created by a conflict of interest is not at an acceptable level, the professional accountant in business shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the professional accountant shall decline to undertake or discontinue the professional activity that would result in the conflict of interest; or shall terminate the relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.</p>	<p>310.5 If you cannot reduce a threat created by a conflict of interest to an acceptable level, you shall apply safeguards for doing so. If that is not possible, you shall refuse to carry out the activity that would result in the conflict of interest. Another option is to terminate the relationship with your employer or dispose of all relevant interests.</p>
<p><b>Financial Interests</b></p> <p>290.102</p> <p>Holding a financial interest in an audit client may create a self-interest threat. The existence and significance of any threat created depends on:</p> <ul style="list-style-type: none"> <li>• The role of the person holding the financial interest,</li> <li>• Whether the financial interest is direct or indirect, and</li> <li>• The materiality of the financial interest.</li> </ul> <p>290.103</p> <p>Financial interests may be held through an intermediary (for example, a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the</p>	<p><b>Financial Interests</b></p> <p>290.102</p> <p>Holding a financial interest in an audit client may create what is known as a self-interest threat. The existence and significance of any self-interest threat depends on:</p> <ul style="list-style-type: none"> <li>• the role of the person holding the financial interest;</li> <li>• whether the financial interest is direct or indirect; and</li> <li>• the materiality of the financial interest.</li> </ul> <p>290.103</p> <p>You can hold financial interests directly or through an intermediary (for example, a collective investment vehicle, estate or trust). Whether financial interests are direct or indirect will depend on whether you, as the beneficial owner of the interest, have control over the investment vehicle or can influence its investment decisions. When either is the</p>

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<p>investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.</p> <p>290.104</p> <p>If a member of the audit team, a member of that individual's immediate family, or a firm has a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the audit team; a member of that individual's immediate family; or the firm.</p>	<p>case, the IEABA Code defines that financial interest to be a direct financial interest. Conversely, when you have neither control over the investment vehicle nor the ability to influence its investment decisions, the Code defines that to be an indirect financial interest.</p> <p>290.104</p> <p>If you, as a member of a client's audit team, an immediate family member or you accounting firm have a direct or a material indirect financial interest in that audit client, the resulting self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of you shall have a direct or a material indirect financial interest in an audit client.</p>

## Plain English Examples 2 A & B

“Conflicts of Interest” (220.12) is presented in two alternative versions of Plain English in addition to Example 1 above.

Original Code	Plain English (see Example 1) Edited in the style of Example 1. (See above).	Plain English (2A)	Plain English (2B)
77 words Reading Grade 21. <sup>2</sup>	66 words Reading Grade 18	36 words Reading Grade 9	25 words Reading Grade 7.
Where a professional accountant in public practice has requested explicit consent from a client and that consent has been refused by the client, the professional accountant shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards if necessary.	If you have requested explicit consent from a client and that consent has been refused, you shall immediately discontinue or refuse to perform any professional services that create the conflict of interest. Another option is to terminate all relevant relationships or dispose of all relevant interests to eliminate the threat or reduce it to an acceptable level, so that you can get that required explicit consent.	Where a client has refused to provide explicit consent, the accountant shall: <ul style="list-style-type: none"> <li>• not perform the service, or</li> <li>• terminate the relationship, or</li> <li>• dispose of the interest,</li> </ul> to eliminate the threat or reduce it to an acceptable level.	Where a client has refused to provide explicit consent, the accountant shall: <ul style="list-style-type: none"> <li>• not perform the service, or</li> <li>• terminate the relationship, or</li> <li>• dispose of the interest.</li> </ul>

<sup>2</sup> The F-K formula was first used by the United States Army for assessing the difficulty of technical manuals in 1978 and soon after became the Department of Defense military standard. The Commonwealth of Pennsylvania was the first state in the United States to require that automobile insurance policies be written at no higher than a ninth grade level (14 to 15 years of age) of reading difficulty, as measured by the F-K formula. This is now a common requirement in many other states and for other legal documents such as insurance policies. (Source Wikipedia)(Reading Grade was measured using Word)

### Plain English Example 3:

1) A clause from UK legislation (but written in a style similar to the IESBA-code)

#### EXERCISE 4

#### Put section 286(2) of the Taxation of Chargeable Gains Act 1992 into plain English:

*A person is connected with an individual if that person is the individual's spouse or civil partner, or is a relative, or the spouse or civil partner of a relative, of the individual or of the individual's spouse or civil partner.*

Treating "spouse or civil partner" and "relative" as single concepts, how many different ways can a person be connected with an individual?

#### Exercise 4 - Suggested Answer

A person (P) is connected with an individual (I) if:

- (a) P is I's spouse or civil partner,
- (b) P is a relative of I,
- (c) P is a relative of I's spouse or civil partner,
- (d) P is the spouse or civil partner of a relative of I, or
- (e) P is the spouse or civil partner of a relative of I's spouse or civil partner.

*Or even (longer but arguably clearer):*

- (d) I has a relative and P is that relative's spouse or civil partner, or
- (e) I's spouse or civil partner has a relative and P is that relative's spouse or civil partner.

## Plain English Example 4

2) A prospective rewrite of an ICAEW FAQ, that explains s280 of the code

### FAQ - ICAEW Code of Ethics Section 280

#### **When undertaking a non-assurance engagement what matters do we need to consider to ensure our objectivity?**

The ICAEW Code of Ethics (the Code) requires members in practice giving assurance reports to be independent in accordance with the requirements of sections 290 and 291 of the Code. This requirement does not extend to non-assurance engagements, but section 280 of the Code reminds members in practice of the need to be objective in all engagements. It highlights that there may be threats to objectivity resulting from having interests in, or relationships with, a client or its directors, officers or employees. It is best to consider these matters before undertaking any new work and during the course of an appointment, as conflicts can arise at any time.

The previous version of the Code included a number of prohibitions in this area but the revised version applicable from 1 January 2011 substitutes these with a requirement to assess whether there are any significant threats and, if there are, apply safeguards. Thus the presumption is no longer that there are insuperable threats to objectivity, but consideration needs to be given as to whether there may be, under the particular circumstances.

## Exercise 12 - Suggested Answer

**We are [I am] undertaking a non-assurance engagement. How do we [I] ensure our [my] objectivity?**

If you are a member in practice giving an assurance report, you must be independent - see sections 290 and 291 of the Code.

If you are undertaking a non-assurance engagement, sections 290 and 291 do not apply, but you still need to be objective - see section 280.

Section 280 reminds you that there may be threats to your objectivity because you have an interest in, or a relationship with, a client or its directors, officers or employees.

You should consider whether there are possible threats before undertaking new work.

You should continue to do so during the course of an appointment, as conflicts can arise at any time.

The previous version of the Code contained some absolute prohibitions. The revised version (applicable from 1 January 2011) contains no prohibitions. Instead it requires you to

- Assess whether there are any significant threats to your objectivity; and if so
- Apply safeguards.