

Proposed Revisions to Structure ED-1

[Mark-up from ED]¹

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

GUIDE TO THE CODE

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

Purpose of the Code

1. ~~The *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("the Code") sets out fundamental principles of ethics and standards for professional accountants, reflecting the profession's recognition of its public interest responsibilities. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. The standards are established by the application of the fundamental principles to specific circumstances.~~
2. The Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help professional accountants apply the conceptual framework to those topics.
3. In the case of audits, reviews and other assurance engagements, the Code sets out *international independence standards* (Parts 4A and 4B), established by the application of the conceptual framework fundamental principle of objectivity to these engagements.

Commented [EH1]: 100.1, 100.2

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How the Code is Structured

4. The Code contains this Guide, the following material, three Parts and a Glossary:

Commented [IESBA3]: 100.2

¹ This material sets out proposed revisions to the December 2015 Exposure Draft (ED) [Improving the Structure of the Code of Ethics for Professional Accountants - Phase 1](#) (Structure ED-1). Comment boxes next to the paragraphs identify their source in the extant Code or indicate whether they are new material. As with Structure ED-1 certain sections of the extant Code which are being restructured as part of Phase 2 of the Structure of the Code project are excluded from this paper. Agenda Item 3-B is a mark-up version and illustrates the proposed revisions since Structure ED-1.

The December 2015 ED, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) sets out proposed revisions to the Code developed by the IESBA in the course of its Safeguards project. The mark-up version of Sections 120 and 300 is addressed as part of the Safeguards agenda meeting materials and is available at **Agenda Item 2-B**. Some of the revisions in this document are proposed conforming amendments arising the Safeguards ED-1. Those conforming amendments are shaded in gray text.

- ~~Part 1A – Introduction to the Code and Complying with the Code, Fundamental Principles and Conceptual Framework~~, which includes the fundamental principles and the conceptual framework, and is applicable to all professional accountants.

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- ~~Part 2B – Professional Accountants in Business~~, which is applicable to professional accountants in business, which include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:

Commented [IESBA5]: 100.3

- Commerce, industry or service.
- The public sector.
- Education.
- The not-for-profit sector.
- Regulatory or professional bodies.

Professional accountants in public practice might also find Part ~~2_B~~ relevant to their particular circumstances.

- ~~Part 3C – Professional Accountants in Public Practice~~, which is applicable to professional accountants in a firm that provides professional services and the firms in which they practice. ~~Part C includes requirements for all accountants in public practice.~~

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- International Independence Standards (Parts 4A and 4B), is applicable to professional accountants in a firm that provides assurance services and the firms in which they practice, as follows: It also includes the international independence standards:

- ~~Part 4AC1 – Independence for Audits and Reviews Engagements~~, applies ~~to professional accountants in public practice who when performing~~ audits and reviews.
- ~~Part 4BC2 – Independence for Other Assurance Engagements~~, applies ~~to professional accountants in public practice who when performing~~ provide assurance engagements services that are not other than audits and reviews.

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Commented [IESBA8]: New paragraph

~~Each part of The Code contains sections which address introduce specific topics and – sSome Ssections might contain have~~ subsections dealing with specific aspects of the topic.

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The Glossary applies to the entire Code and contains defined terms (together with additional explanations where appropriate) and terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in ~~Part 4A, C1~~ the term “audit engagements” is used to refer to both audit and review engagements.

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5. ~~The content within Each of the sections of the Code is structured, where appropriate, structured as follows:~~

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- Introduction – sets out the subject matter addressed within the ~~s~~Section, and introduces the requirements and application material in the context of the conceptual framework.
- Requirements – establish general and specific obligations with respect to the subject matter addressed, ~~including any specific prohibitions.~~
- Application material – provides guidance to assist in complying with the requirements.

How to Use the Code

6. ~~The Code requires professional accountants and firms to comply with the fundamental principles of professional ethics for professional accountants.~~

Commented [IESBA12]: New paragraph

7. ~~All of the requirements and application material are to be read and applied in the context of complying with the fundamental principles, applying the conceptual framework and being independent where applicable.~~

6-8. ~~Proper understanding and application of a particular section of the Code requires knowledge and understanding of the relevant section and the entire text of Part 1. Where a section includes subsections, the requirements and application material set out in the subsection are to be read in conjunction with the requirements and application material set out in the related section.~~

Requirements

9. ~~Requirements are designated with an "R" and, in most cases, include the word "shall". The word "shall" in the Code imposes an obligation on the professional accountant or firm to comply with the specific provision in which "shall" has been used. "Shall" is used to indicate a requirement and requirements are designated with an "R".~~

Commented [IESBA13]: 100.4

7-10. ~~As explained in paragraph 120.8 A2, some requirements set out situations in which the circumstances creating the threats cannot be eliminated and there can be no safeguards to eliminate the threats created or reduce them to an acceptable level.~~

8-11. ~~In some situations the Code provides a specific exception to a requirement. In such a situation, the provision is designated with an "R" but uses "may" or other permissive or conditional language to indicate that an exception is permitted in certain circumstances.~~

Application Material

9-12. ~~As noted in paragraph 100.2, in addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help the professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with or a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. The entire text of Part A and the relevant Section is required to understand and properly apply that Section. Application material is designated with an "A".~~

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13. ~~Where application material includes lists of examples, these lists are not intended to be read as exhaustive lists of all possibilities or circumstances that might arise.~~

Commented [IESBA15]: New paragraph

10. ~~Exceptional Circumstances~~

~~A professional accountant might encounter circumstances in which the result of applying a specific requirement of the Code would be disproportionate or not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional body or a regulator.~~

Commented [IESBA16]: 100.11

~~A professional accountant might face a situation where compliance with one fundamental principle conflicts with one or more other fundamental principles. In those situations, the accountant is encouraged to consult. Appropriate parties for consultation might include one or more of the following:~~

Commented [IESBA17]: 100.19 to 100.21

~~Others within the firm or employing organization.~~

~~Those charged with governance.~~

~~A professional body.~~

~~A regulator.~~

~~Legal counsel.~~

~~The accountant is usually able to obtain guidance on ethical issues without breaching the fundamental principle of confidentiality. However, such guidance does not relieve the accountant from the responsibility to apply professional judgment to resolve the conflict or, if necessary, disassociate from the matter creating the conflict.~~

Commented [IESBA18]: 100.23,100.24.

~~A professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.~~

Commented [IESBA19]: 100.22

Additional Non-Authoritative Guidance

~~10. Non-authoritative guidance is available on the IESBA website (www.ethicsboard.org) to help users understand aspects of the Code and comply with it.~~

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PREFACE

The IESBA develops and issues, under its own standard setting authority, the *International Code of Ethics Standards for Professional Accountants (including International Independence Standards)* ("the Code"),^{1,2,3,4,5,6,7} including international independence standards. The Code is for use by professional accountants around the world. The Code is established by IESBA for international application following due process.

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

Commented [IESBA21]: Preface

Appendix

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OVERVIEW OF THE CODE

PART 1A (ALL PROFESSIONAL ACCOUNTANTS)
COMPLYING WITH THE CODE AND ITS FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK
(SECTIONS 100 TO 199)

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

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

~~PART C~~ **INTERNATIONAL INDEPENDENCE STANDARDS**
(PARTS 4A AND 4B)
PART 4AC4 – INDEPENDENCE FOR AUDITS AND REVIEWS
ENGAGEMENTS
(SECTIONS 400 TO 899)
PART 4BC2 – INDEPENDENCE FOR OTHER ASSURANCE
ENGAGEMENTS
(SECTIONS 900 TO 999)

GLOSSARY (ALL PROFESSIONAL ACCOUNTANTS)

The Conceptual Framework contained in Section 120 applies in all circumstances

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Glossary

The Conceptual Framework contained in Section 120 applies in all circumstances

Note to Meeting Participants

Placeholder for Table of Contents for Part 1. The Task Force envisages that each part of the Code will include a stand-alone table of contents. This table of contents will be included here in the December 2016 IESBA meeting draft.

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

Section 100

Complying with the Code

Introduction to the Code

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant's² responsibility is not exclusively to satisfy the needs of an individual client or employer. Therefore, the Code contains requirements and application material for accountants to enable accountants to meet their responsibility to act in the public interest, regarding matters that are integral to acting in the public interest.

Commented [IESBA23]: 100.1

100.2 The fundamental principles of professional ethics set out in the Code establish the standard of behavior expected of a professional accountant. The conceptual framework establishes an approach which accountants are required to apply to assist them in achieving compliance with those fundamental principles.

Commented [IESBA24]: New paragraph Moved to 110.2

100.2 The requirements in the Code impose obligations. Application material provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

R100.3 A professional accountant, acting in the public interest, shall comply with the Code. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

Commented [IESBA25]: 100.1

100.3 A1 The fundamental principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have requirements and guidance that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.

Commented [IESBA26]: Preface

² In Part A, "professional accountant" includes "professional accountants in business" and "professional accountants in public practice," which also includes their firms.

The Conceptual Framework contained in Section 120 applies in all circumstances

100.3 A2 ~~[Guide 10]~~ A professional accountant might encounter circumstances in which the result of applying a specific requirement of the Code would be disproportionate or not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional body or a regulator in order to comply with the fundamental principles.

Commented [IESBA27]: 100.11

R100.4 Paragraphs 400.80 to 400.88 and 900.50 to 900.55 address a breach of Parts 4A and 4B, respectively. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

Commented [IESBA28]: 100.10

Commented [IESBA29]: 100.10

- (a) Take whatever actions might be available, as soon as possible, to satisfactorily to address the consequences of the breach; and
- (b) Determine whether to report the breach, to, for example, those who might have been affected by it, a professional body or a regulator.

100.4 A1 ~~Subsections 404 and 902² address a breach of an independence Standard requirement. Examples of those to whom such a breach might be reported include those who might have been affected by it, a professional body, a regulator or an oversight authority.~~

Commented [IESBA30]: 100.10

Section 110

The Fundamental Principles

Introduction

110.1 There are five fundamental principles of ethics for professional accountants:

Commented [IESBA31]: 100.5

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – ~~not to compromise~~ make professional or business judgments because of ~~without~~ bias, conflict of interest or undue influence of others.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service, based on current developments in practice, legislation and techniques; and
 - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know might discredit the profession.

R110.2 A professional accountant shall comply with each of the fundamental principles.

The Conceptual Framework contained in Section 120 applies in all circumstances

110.2 A1 ~~100.2~~ The fundamental principles of professional ethics set out in the Code establish the standard of behavior expected of a professional accountant. The conceptual framework establishes ~~the an~~ approach which ~~all accountants~~ are required to apply to assist them in achieving compliance with those fundamental principles. ~~Subsections 111 to 115 set-out requirements and application material related to each of these fundamental principles.~~

Commented [SDS32]: 100.2 moved here.

Commented [IESBA33]: New paragraph

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Ethical Conflict Resolution

Exceptional Circumstances

R110.3 ~~If a professional accountant is required to resolve a conflict in complying with the fundamental principles, the accountant, having considered the relevant factors and weighed the consequences of each possible course of action, shall:~~

Commented [IESBA35]: 100.19, 100.20, 100.21

~~(a) Determine the appropriate course of action; and~~

~~(b) Determine whether to consult with those charged with governance of the organization.~~

110.3 A1 ~~A conflict in applying the conceptual framework to comply with the fundamental principles might arise when compliance with one fundamental principle conflicts with one or more other fundamental principles.~~

Commented [IESBA36]: New paragraph

110.3 A2 ~~[Guide 11] A professional accountant might face a situation where compliance with one fundamental principle conflicts with one or more other fundamental principles. Factors which might be relevant to the determinations required by paragraph R110.3 include:~~

Commented [IESBA37]: 100.20

- ~~• Relevant facts.~~
- ~~• Ethical issues involved.~~
- ~~• Fundamental principles related to the matter in question.~~
- ~~• Possible courses of action.~~

110.3 A3 ~~If a significant conflict cannot be resolved, in these situations, the professional accountant is encouraged to consult. Appropriate parties for consultation might include one or more of the following:~~

Commented [IESBA38]: 100.23

- ~~• Others within the firm or employing organization.~~
- ~~• Those charged with governance.~~
- ~~• A professional body.~~
- ~~• A regulator.~~
- ~~• Legal counsel.~~

110.3 A4 ~~A~~ professional accountant is usually able to obtain guidance on ethical issues without breaching the fundamental principle of confidentiality, ~~either by consulting on an anonymous basis or under the protection of legal privilege.~~

Commented [IESBA39]: 100.23, 100.24.

The Conceptual Framework contained in Section 120 applies in all circumstances

110.3 A5 However, Obtaining such guidance does not relieve the professional accountant from the responsibility to apply professional judgment to resolve the conflict or, if necessary, disassociate from the matter creating the conflict.

Commented [IESBA40]: New paragraph

110.3 A6 [Guide 12] A professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

Commented [IESBA41]: 100.22

Subsection 111 – Integrity

R111.1 A professional accountant shall comply with the fundamental principle of integrity which requires an accountant to be straightforward and honest in all professional and business relationships.

Commented [IESBA42]: 110.1

111.1 A1 Integrity implies fair dealing and truthfulness.

Commented [IESBA43]: 110.1

R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

Commented [IESBA44]: 110.2

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

R111.3 When a professional accountant becomes aware of having been associated with information described in R111.2, the accountant shall take steps to be disassociated from that information.

Commented [IESBA45]: 110.2

111.3 A1 The professional accountant is not in breach of R111.23 if a modified report is provided in respect of the information described in that paragraph R111.2.

Commented [IESBA46]: 110.3

Subsection 112 – Objectivity

R112.1 A professional accountant shall comply with the fundamental principle of objectivity which requires an accountant not to compromise make professional or business judgments because of without bias, conflict of interest or undue influence of others.

Commented [IESBA47]: 120.1

R112.2 A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Commented [IESBA48]: 120.2

112.2 A1 The existence of threats to compliance with the principle of objectivity when undertaking any professional activity will depend upon the circumstances and nature of the activity. For example, a familiarity threat to objectivity might be created by a family or close personal or business relationship.

Commented [IESBA49]: 120.2, 280.1, 280.3

112.2 A2 Examples of actions that might be safeguards to address threats to compliance with the principle of objectivity include:

- Supervisory procedures.
- Discussing the issue:
 - With higher levels of management within the firm; or

The Conceptual Framework contained in Section 120 applies in all circumstances

- o With those charged with governance of the client or organization;

Commented [IESBA50]: Refer to SG TF as well

112.2 A3 Other actions that might address threats to compliance with the principle of objectivity include:

- Withdrawing from the activity or the engagement team.
- Ending the financial or business relationship causing the threat.

112.3 A1 Independence is a measure of objectivity both in mind and appearance which is applied in relation to audit, review and other assurance engagements. It enables the professional accountant in public practice to express, and be seen to express, an objective conclusion when performing such engagements.

112.3 A2 C1 and C2 set out independence requirements and application material for professional accountants in public practice.

Commented [IESBA51]: 280.2

Subsection 113 – Professional Competence and Due Care

R113.1 A professional accountant shall comply with the fundamental principle of professional competence and due care which requires an accountant to:

Commented [IESBA52]: 130.1

- Attain and maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service, based on current technical and professional standards and relevant legislation developments in practice, legislation and techniques; and
- Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employers with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

Commented [IESBA53]: 130.2

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

Commented [IESBA54]: 130.3

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

Commented [IESBA55]: 130.4

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

Commented [IESBA56]: 130.5

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

Commented [IESBA57]: 130.6

The Conceptual Framework contained in Section 120 applies in all circumstances

Subsection 114 – Confidentiality

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

Commented [IESBA58]: 140.1

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or a close or immediate family member;
- (b) Maintain confidentiality of information within the firm or employing organization;
- (c) Maintain confidentiality of information disclosed by a prospective client or employer;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization to third parties without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after the business or personal relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance is obtained, respect the accountant's duty of confidentiality.

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Commented [IESBA60]: 140.4

Commented [IESBA61]: 140.3

Commented [IESBA62]: 140.1(a)

Commented [IESBA63]: 140.1(b)

Commented [IESBA64]: 140.6

Commented [IESBA65]: 140.5

R114.21-A1 The requirement to comply with the fundamental principle of confidentiality continues even after the end of the relationship between a professional accountant and a client or employer. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

Commented [IESBA66]: 140.6

114.24-A12 The following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

Commented [IESBA67]: 140.7

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client or the employer; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;

The Conceptual Framework contained in Section 120 applies in all circumstances

- (ii) To respond to an inquiry or investigation by a professional or regulatory body;
- (iii) To protect the professional interests of an accountant in legal proceedings; or
- (iv) To comply with technical standards and ethics requirements.

114.24 A23 In deciding whether to disclose confidential information in such circumstances, factors to consider include:

Commented [IESBA68]: 140.8

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

Subsection 115 – Professional Behavior

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

Commented [IESBA69]: 150.1

Commented [IESBA70]: 150.1

Commented [SDS71]: 220.2

115.1 A1 Actions that might discredit the profession include actions that a reasonable and informed third party would be likely to conclude adversely affect the good reputation of the profession.

R115.2 When marketing or promoting themselves and their work, professional accountants shall not bring the profession into disrepute. Accountants shall be honest and truthful and shall not make:

Commented [IESBA72]: 150.2, 250.2

- (a) Exaggerated claims for the services they are able to offer, their qualifications, or their experience; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

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

Commented [IESBA73]: 250.2

[See Agenda Item 2-B for mark-up to Safeguards ED-1 Section 120, *The Conceptual Framework*]

The Conceptual Framework contained in Section 120 applies in all circumstances

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

[Place holder for requirements and application material for professional accountants in business.]

In December 2015 IESBA approved Phase 1 of the Revision of Part C project – revised Section 320⁴ and new Section 370⁵ and related conforming amendments to other sections of Part C (“close-off document”) under the current structure and drafting conventions. The close-off document is currently being restructured under the proposed new structure and drafting conventions for the Code. At its September 2016 meeting, the IESBA will consider the proposed restructured text that will be included in the Phase 2 Structure of the Code exposure draft anticipated for approval in December 2016.

*Phase 2 of the Revision of Part C project deals with the topic of Inducements, and the applicability of Part C to professional accountants in public practice. See **Agenda Items 4.**]*

⁴ Revised Section 320. Preparation and Presentation of Information

⁵ Section 370. Pressure to Breach the Fundamental Principles

The Conceptual Framework contained in Section 120 applies in all circumstances

Note to Meeting Participants

Placeholder for Table of Contents for Part 3. The Task Force envisages that each part of the Code will include a stand-alone table of contents. This table of contents will be included here in the December 2016 IESBA meeting draft.

PART 3G – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Section 300

~~Applying the Application of the Conceptual Framework in~~ Professional Accountants in Public Practice

[See Agenda Item 2-B mark-up to Safeguards ED-1 for the remaining paragraphs in Sections 300]

Communicating with Those Charged with Governance

R300.83 When communicating with those charged with governance in accordance with the Code, the professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary.

Commented [IESBA74]: 100.25

300.83 A1 In determining with whom to communicate, the professional accountant might consider:

Commented [IESBA75]: 100.25

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

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

Commented [IESBA76]: 100.25

Section 310

Conflicts of Interest

Introduction

310.1 Section 310 sets out requirements and application material when applying the conceptual framework to conflicts of interest.

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310.12 Professional accountants might face circumstances that create a conflict of interest. A conflict of interest creates a threat to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles.

Commented [IESBA78]: 220.1

310.23 Such threats might be created when:

Commented [IESBA79]: 220.1

(a) 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

The Conceptual Framework contained in Section 120 applies in all circumstances

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

310.34 Examples of circumstances that might create a conflict of interest include:

Commented [IESBA80]: 220.2

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

310.5 ~~When a professional accountant provides an audit, review or other assurance service, compliance with the fundamental principle of objectivity also requires independence in accordance with C1 and C2, as appropriate.~~

Commented [IESBA81]: 220.1

310.4 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. Section 310 sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a professional accountant provides an audit, review or other assurance service, compliance with the fundamental principles also requires independence in accordance with Parts 4A and 4B.

Commented [IESBA82]: 220.1

The Conceptual Framework contained in Section 120 applies in all circumstances

Requirements and Application Material

R310.56 ~~A professional accountant shall apply the conceptual framework set out in Section 120 and shall not allow a conflict of interest to compromise professional or business judgment.~~

Commented [IESBA83]: 220.1

Conflict Identification

R310.67 ~~Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more fundamental principles, including identifying:~~

Commented [IESBA84]: 220.6, 220.3

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

310.67 A1 ~~Professional accountants are assisted by having an effective conflict identification process in place. Such a process includes addressing matters identified by external parties, for example clients or potential clients. An effective conflict identification process assists an accountant when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the accountant being able to apply safeguards to eliminate address the threats created by the conflict of interest.~~

Commented [IESBA85]: 220.7

~~An effective~~ The process to identify actual or potential conflicts of interest will take into account depend on factors such as:

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

310.67 A2 ~~More information on client acceptance is set out in Section 320, *Professional Appointments*.~~

Commented [IESBA86]: New paragraph

R310.78 A professional accountant shall remain alert to changes in the circumstances that might create a conflict of interest during an engagement.

Commented [IESBA87]: 220.6

310.78 A1 The nature of the services and the interests and relationships might change during the engagement. This is particularly often true when a professional accountant is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the accountant initially may not be involved in a dispute. in a situation that might become adversarial, although there is no dispute when the engagement begins.

Commented [IESBA88]: 220.6

Network Firms

The Conceptual Framework contained in Section 120 applies in all circumstances

R310.89 If the firm is a member of a network, the professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of a network firm.

Commented [IESBA89]: 220.8

310.89 A1 Reasonable steps to Factors to consider when identifying interests and relationships involving a network firm will depend on factors such as include:

Commented [IESBA90]: 220.8

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

Applying the Conceptual Framework to Conflicts of Interest

310.940 A1 In applying the conceptual framework when a factor that is important in evaluating the level of any threat created by a conflict of interest is the existence of a separate practice area for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas, factors to consider include the significance of:

Commented [IESBA91]: 220.3, 220.9

- (a) The interests or relationships creating the threat; and
- (b) The threats created by performing the professional services.

310.940 A2 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more significant higher the level of the threat to objectivity and compliance with the other fundamental principles will be.

Commented [IESBA92]: 220.9

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

Commented [IESBA93]: 220.10

- Implementing measures to prevent unauthorized disclosure of confidential information, when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include:
 - Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
 - Creating separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
 - Establishing policies and procedures to limit access to client files.
 - Using confidentiality agreements signed by personnel and partners of the firm.
 - Separating confidential information physically and electronically.
- Reviewing regularly the application of safeguards by a senior individual not involved with the client engagement or engagements.
- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key

The Conceptual Framework contained in Section 120 applies in all circumstances

judgments and conclusions are appropriate.

- Consulting third parties, such as a professional body, legal counsel or another professional accountant.

Disclosure and Consent

R310.104 A professional accountant shall exercise professional judgment to determine whether the nature and significance of a conflict of interest is such that specific disclosure and explicit consent is necessary when addressing the threat created by the conflict of interest.

Commented [IESBA94]: 220.11

Commented [IESBA95]: SS

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

Commented [IESBA96]: 220.11

(a) The parties that might be affected;

(b) The nature of the issues that might arise; and

(a)(c) The potential for the particular matter to develop in an unexpected manner.

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

Commented [IESBA97]: 220.11

- General disclosure to clients of circumstances where, as is common commercial practice, the professional accountant does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector) in order for the client to provide general consent accordingly. For example, an accountant might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the professional accountant has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

310.104 A3 It is generally necessary:

Commented [IESBA98]: 220.11

(a) To disclose the nature of the conflict of interest and any related safeguards to clients affected by the conflict; and

(b) When safeguards are required to reduce the threat to an acceptable level, to obtain the consent of the affected clients to perform the professional services.

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

Commented [IESBA99]: 220.13

(a) The nature of the circumstances giving rise to the conflict of interest;

The Conceptual Framework contained in Section 120 applies in all circumstances

- (b) The safeguards applied to reduce the threats to an acceptable level; and
- (c) The consent obtained.

R310.112 If a professional accountant has determined that explicit consent is necessary in accordance with paragraph R310.104 and the client has refused to provide consent, the accountant shall either:

Commented [IESBA100]: 220.12

- (a) End or decline to perform or discontinue professional services that would result in the conflict of interest; or
- (b) End relevant relationships, or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, so that consent can be obtained, after applying any additional safeguards if necessary.

Confidentiality

R310.123 A professional accountant shall remain alert to the fundamental principle of confidentiality including when making disclosures or sharing information within the firm or network and seeking guidance of third parties.

Commented [IESBA101]: 220.4

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

R310.134 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

Commented [IESBA102]: 220.14

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

310.134 A1 For example, a breach of confidentiality might arise when seeking consent to perform:

Commented [IESBA103]: 220.14

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

R310.145 In the circumstances set out in R310.134, the professional accountant shall document:

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

The Conceptual Framework contained in Section 120 applies in all circumstances

(c) Why it is appropriate to accept the engagement.

[315] ~~Reserved for restructured Non-compliance with Laws and Regulations – At its September 2016 meeting, the IESBA will consider the proposed restructured text for its recently released NOCLAR pronouncement. This proposed restructured text will be included in the Phase 2 Structure of the Code exposure draft anticipated for approval in December 2016. See Agenda Items 6]~~

Section 320

~~Accepting Professional~~ Appointments

Introduction

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

320.2 ~~Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. Section 320 sets out specific requirements and application material relevant to applying the conceptual framework to changes in professional appointments, including new appointments and new or recurring engagements for existing clients.~~

320.2 ~~Accepting a new client or a new or recurring engagement might create threats to compliance with the fundamental principles.~~

Commented [IESBA104]: New paragraph

Commented [IESBA105]: 210.1, 210.2

Requirements and Application Material

R320.3 ~~A professional accountant shall apply the conceptual framework set out in Section 120 to a professional appointment.~~

Commented [IESBA106]: 210.1

Client Acceptance and Continuance

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

Commented [IESBA107]: 210.1, 210.2

320.3 A2 ~~Factors that are important in evaluating the level of any threat created by accepting a new client~~
Examples of safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those charged with governance and business activities.
- Obtaining the client's commitment to improve corporate governance practices or internal controls.

The Conceptual Framework contained in Section 120 applies in all circumstances

320.3 A3 A professional accountant is encouraged to conduct periodic reviews of engagement ~~continuance acceptance~~ decisions for recurring client engagements.

Commented [IESBA108]: 210.5

Engagement Acceptance

320.3 A4 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

Commented [IESBA109]: 210.6

320.3 A5 Factors that are important in evaluating the level of any threat created by accepting a new engagement ~~Examples of safeguards include:~~

Commented [IESBA110]: 210.7

- Acquiring an appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.

- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Complying with quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

Examples of actions that might be safeguards to address threats created by accepting a new engagement include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- ~~Complying with quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~
- Using experts where necessary.

Changes in a Professional Appointment

R320.4 A professional accountant shall determine whether there are any reasons, ~~professional or otherwise,~~ for not accepting an engagement when the accountant:

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

Commented [IESBA111]: 210.9

Commented [IESBA112]: 210.9

Commented [IESBA113]: 210.12

The Conceptual Framework contained in Section 120 applies in all circumstances

320.4 A1 ~~There might be reasons, professional or otherwise, for not accepting an engagement. Such reasons might include 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 might be a threat to compliance with the fundamental principle of professional competence and due care if a professional accountant accepts the engagement before knowing all the relevant facts.~~

Commented [IESBA114]: 210.9

320.4 A2 ~~If a professional accountant is asked to undertake work that is complementary or additional to the work of an existing accountant, threats to compliance with the principles of professional competence and due care might result, for example, from incomplete information.~~

Commented [IESBA115]: 210.12

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

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

Commented [IESBA116]: 210.11

~~Stating in tenders that, before accepting the engagement, contact with the existing accountant will be requested. This contact gives the proposed professional accountant the opportunity to inquire whether there are any reasons why the engagement appointment should not be accepted.~~

- ~~• Asking the existing accountant to provide any known information that, in the existing accountant's opinion, the proposed professional accountant needs to be aware of before deciding whether to accept the engagement.~~
- ~~• Obtaining information from other sources such as through inquiries of third parties or background investigations of regarding senior management or those charged with governance of the client.~~

Commented [IESBA117]: 210.11

320.4 A4 ~~Depending on the nature of the engagement, direct communication with the existing accountant might be needed to understand the establish the circumstances or reasons regarding a proposed change in appointment. Such communication might assist a professional accountant to decide whether it would be appropriate to accept the engagement. For example, the apparent reason for the change in appointment might not fully reflect the facts. It might indicate disagreements with the existing accountant that might influence the decision to accept the engagement appointment.~~

Commented [IESBA118]: 210.10

320.4 A5 ~~A proposed professional accountant will usually need the client's permission, preferably in writing, to initiate discussions with the existing accountant.~~

Commented [IESBA119]: 210.14

R320.5 ~~If 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.~~

Commented [IESBA120]: 210.14

The Conceptual Framework contained in Section 120 applies in all circumstances

R320.6 When an existing professional accountant is asked to respond to a communication from a proposed professional accountant, the existing accountant shall:

Commented [IESBA121]: 210.14

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

320.6 A1 An existing professional accountant is bound by confidentiality. Whether this existing 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:

Commented [IESBA122]: 210.13

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

320.6 A2 Circumstances where a professional accountant is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A2 of the Code.

Commented [IESBA123]: 210.13

Using the Work of an Expert

R320.7 When a professional accountant intends to use the work of an expert, the accountant shall determine whether the use is warranted.

Commented [IESBA124]: 210.8

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

Commented [IESBA125]: 210.8

Section 321

Second Opinions

Introduction

321.1 Providing a second opinion to an entity that is not an existing client might create self-interest threats.

Commented [IESBA126]: 230.1

321.2 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. Section 321 sets out specific requirements and application material relevant to applying the conceptual framework to providing a second opinion.

Commented [IESBA127]: New paragraph

Requirements and Application Material

R321.4 A professional accountant shall apply the conceptual framework set out in Section 120 when providing a second opinion.

Commented [IESBA128]: 230.2

R321.35 If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing accountant, the accountant shall determine

Commented [IESBA129]: 230.3

The Conceptual Framework contained in Section 120 applies in all circumstances

whether, taking all the circumstances into account, the accountant may provide the second opinion sought, and remain in compliance with the fundamental principles.

321.32 A1 A professional accountant might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client.

Commented [IESBA130]: 230.1

321.3 A2 Providing a second opinion to an entity that is not an existing client might create threats, to compliance with the fundamental principles. For example, there might be a threat to compliance with the principle of professional competence and due care if the second opinion is not based on the same facts that the existing accountant had, or is based on inadequate evidence.

Commented [IESBA131]: 230.1

321.5-3 A34 Factors that are important in evaluating the level of the existence and significance of any threat created by providing a second opinion to an entity that is not an existing client depends on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

Commented [SDS132]: 230.1

321.5-3 A42 Examples of actions that might be safeguards to address the threats created by providing a second opinion include:

Commented [IESBA133]: 230.2

- Seeking client permission to contact the existing accountant.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the existing accountant with a copy of the opinion.

Section 330

Fees and Other Types of Remuneration

Introduction

330.1 The level and nature of fee and other remuneration arrangements might create self-interest threats.

Commented [IESBA134]: New paragraph

330.2 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. Section 330 sets out specific requirements and application material relevant to applying the conceptual framework to fees and other types of remuneration.

Commented [IESBA135]: New paragraph

330.2 The level and nature of fee and other remuneration arrangements might create threats to compliance with the fundamental principles.

Commented [IESBA136]: New paragraph

Requirements and Application Material

R330.3 A professional accountant shall apply the conceptual framework set out in Section 120 to fees and other types of remuneration.

Commented [IESBA137]: 240.1, 240.2

The Conceptual Framework contained in Section 120 applies in all circumstances

Level of Fees

330.23 A1 The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.

Commented [IESBA138]: 240.1, 240.2

330.23 A2 A professional accountant may quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

Commented [IESBA139]: 240.01

330.23 A3 ~~Examples of safeguards~~ Factors that are important in evaluating the level of any threats created by the level of fees quoted include:

Commented [IESBA140]: 240.2

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.

Examples of actions that might be safeguards to address those threats include:

- Assigning appropriate time and qualified personnel to the task.
- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

Contingent Fees

330.3 A14 Contingent fees are widely used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances. The existence and significance of such threats will depend on factors including:

Commented [IESBA141]: 240.3

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Whether an independent third party is to review the outcome or result of the transaction.

330.3 A25 ~~Examples of safeguards include:~~

Commented [IESBA142]: 240.4

- An advance written agreement with the client on the basis of remuneration.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality control policies and procedures.

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

Commented [IESBA143]: 240.4

- Whether an independent third party is to review the outcome or result of the transaction.
- Review by an independent third party of the work performed by the accountant.

The Conceptual Framework contained in Section 120 applies in all circumstances

- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

330.3 A36 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in Parts 4A and 4B, respectively C1 and C2 of the Code.

Commented [IESBA144]: New paragraph

Referral Fees or Commissions

330.43 A17 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant receives a referral fee or commission relating to a client. For example, such referral fees or commissions include:

Commented [IESBA145]: 240.5

- A fee received for referring a continuing client to another accountant or other expert where the existing accountant does not provide the specific professional service required by the client.
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

330.43 A28 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is also created if a professional accountant pays a referral fee to obtain a client. For example, such a referral fee includes a fee that is paid when the client continues as a client of another accountant but requires specialist services not offered by the existing accountant. For example, such a referral fee includes a fee that is paid by one accountant to another for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.

Commented [IESBA146]: 240.6

330.43 A39 Factors that are important in evaluating the level of any threats created by the payment or receipt of a referral fee or commission. Examples of safeguards include:

Commented [IESBA147]: 240.7

- Disclosing to the client any arrangements to pay a referral fee to another accountant for the work referred.
- Disclosing to the client any arrangements to receive a referral fee for referring the client to another accountant.

330.4 A4 Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client is an example of an action that might be a safeguard to address threats created by the payment or receipt of a referral fee or commission.

330.43 A510 A professional accountant may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purpose of paragraphs 330.43 A17 and 330.43 A28.

Commented [IESBA148]: 240.8

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 340

Gifts and Hospitality

Introduction

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

Commented [IESBA149]: 260.1

340.2 ~~Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. Section 340 sets out specific requirements and application material relevant to applying the conceptual framework to offers of gifts and hospitality.~~

Commented [IESBA150]: New paragraph

Requirement and Application Material

~~R340.3 A professional accountant shall apply the conceptual framework set out in Section 120 to the acceptance of offers of gifts and hospitality.~~

Commented [IESBA151]: 260.3

340.2 A1 ~~An offer of gifts or hospitality from a client to a professional accountant, or an immediate or close family member of an accountant, might create a self-interest or familiarity threat to compliance with the principle of objectivity if the offer is accepted, or an intimidation threat to objectivity if the acceptance of the offer might be made public.~~

Commented [IESBA152]: 260.1

340.3 A1 ~~The existence and significance of a threat created by an offer of a gift or hospitality from a client will depend on the nature, value and intent of the offer. In some circumstances, a reasonable and informed third party would consider some gifts or hospitality to be trivial and inconsequential. In such circumstances, the professional accountant may conclude that the offer is made in the normal course of business without intent to influence decision making or to obtain information, and conclude that any threat to compliance with the fundamental principles is at an acceptable level.~~

Commented [IESBA153]: 260.2

340.2 A2 ~~Factors that are important in evaluating the level of any threat created by an offer of a gift or hospitality will depend on the nature, value and intent of the offer. The reasonable and informed third party concept is relevant to the professional accountant's conclusion about whether:~~

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

Section 350

Custody of Client Assets

Introduction

350.1 ~~Holding client assets creates threats, for example a self-interest threat to compliance with the principles of professional behavior and objectivity.~~

Commented [IESBA154]: 270.2

The Conceptual Framework contained in Section 120 applies in all circumstances

350.2 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats. Section 350 sets out specific requirements and application material relevant to applying the conceptual framework to assuming custody of client money or other assets.

Commented [IESBA155]: New paragraph

350.2 Holding client assets creates threats to compliance with the fundamental principles, for example, a self-interest threat to professional behavior and objectivity.

Commented [IESBA156]: 270.2

Requirements and Application Material

R350.3 A professional accountant shall apply the conceptual framework set out in Section 120 when assuming custody of client money or other assets.

Commented [IESBA157]: New paragraph

350.3 A1 A professional accountant might also be bound by law that establishes who may take custody of client money or other assets and under what conditions such custody may be taken.

Commented [IESBA158]: 270.2

R350.24 A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

Commented [IESBA159]: 270.1

R350.35 As part of client and engagement acceptance procedures related to assuming custody of client money or assets, the professional accountant shall:

Commented [IESBA160]: 270.3

- (a) Make inquiries about the source of the assets; and
- (b) Consider related legal and regulatory obligations.

350.35 A1 Inquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat to compliance with the fundamental principles would be created and the professional accountant might consider seeking legal advice.

Commented [IESBA161]: 270.3

R350.46 A professional accountant entrusted with money or other assets belonging to others shall:

Commented [IESBA162]: 270.2

- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
- (a)(b) Keep the assets separately from personal or firm assets;
- (bc) Use the assets only for the purpose for which they are intended; and
- (ed) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting; and
- (d) Comply with the laws and regulations relevant to holding and accounting for the assets.

The Conceptual Framework contained in Section 120 applies in all circumstances

Note to Meeting Participants

Placeholder for Table of Contents for Parts 4A and 4B. The Task Force envisages that each part of the Code will include a stand-alone table of contents. This table of contents will be included here in the December 2016 IESBA meeting draft.

INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A and 4B)

PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS ENGAGEMENTS

Section 400

Applying ~~of~~ the Conceptual Framework to Independence for Audits and Reviews

Introduction

400.1 Independence is a measure of objectivity, both in mind and appearance, which is applied to audit engagements.⁶ ~~It enables a firm to express, and be seen to express, an objective conclusion when performing such engagements. It is in the public interest and required by the Code that professional accountants in public practice members of audit teams,⁷ firms and network firms be independent of audit clients.⁸ C1 sets out requirements and application material on maintaining independence when performing audit or review engagements. (See also paragraph 400.7 regarding references to “firm.”)~~

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

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

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

400.5~~7~~ Firms are required by *International Standards on Quality Control 1* (ISQC 1~~s~~) to establish policies and procedures designed to provide them with reasonable assurance that ~~the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence independence is maintained where~~ required by relevant ethical requirements. *International Standards on Auditing* (ISAs) establish responsibilities for engagement partners and engagement teams. ~~The allocation of Certain~~ responsibilities within a firm ~~will~~ depend on its size, structure and organization. Many of the provisions of ~~this Part C1~~ do not prescribe the

⁶ In C1, “audit engagement” includes “review engagement.”

⁷ In C1, “audit team” includes “review team.”

⁸ In C1, “audit client” includes “review client” ~~and Related entities of the audit client are also included in “audit client”~~ – see Glossary for more detail.

The Conceptual Framework contained in Section 120 applies in all circumstances

specific responsibility of individuals within the firm for actions related to independence, instead referring to 'firm' for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, individual professional accountants remain responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships. Although firms and professional accountants within those firms each have responsibilities for compliance, for ease of reference, many of the provisions of C1 refer to "firm," even if the main responsibility rests with an individual within the firm.

400.62 Paragraph 120.10 A1 states that Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

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

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

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

400.75 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

400.83 This Part C1 describes facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence. Firms are required to apply the conceptual framework to threats to independence as well as to threats to compliance with the fundamental principles that are linked to independence. "This Part # describes the potential threats, and safeguards that might be appropriate to address any such threats by eliminating them or reducing them to an acceptable level and # identifies some situations where no safeguards could reduce the threats to an acceptable level," but does not describe all situations that might create a threat.

Commented [IESBA166]: 290.5, 290.8, 290.9, 290.100

400.74 The conceptual framework requires a firm to evaluate the implications of similar, but different, facts and circumstances and determine whether the threat can be addressed by applying safeguards, including the safeguards in 300.2 A10 to eliminate the threats to independence or reduce them to an acceptable level.

Commented [IESBA167]: 290.8, 290.9, 290.100

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400.8 ~~Independence requirements for assurance engagements that are not audit or review engagements are set out in C2.~~

Commented [IESBA168]: 290.1 last sentence

Public Interest Entities

400.96 ~~Some of the C1 sets out requirements and application material set out in this Part that reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:~~

Commented [IESBA169]: 290.25, 290.26

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

Reports that Include a Restriction on Use and Distribution

400.10 ~~8 An audit report⁹ might include a restriction on use and distribution. If it does, the independence requirements in Sections 400 to 799C1 may be modified as provided in Section 800,⁴⁰ if the conditions set out in Section 800 these paragraphs are met. These modifications are not permitted for an audit of financial statements which is required by law or regulation.~~

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Requirements and Application Material

R400.119 ~~A firm performing an audit engagement shall be independent of the audit client.~~

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R400.12 ~~A firm and shall apply the conceptual framework set out in Section 120 to when identifying, evaluating and addressing threats to independence in relation to an audit engagement.~~

R400.10 ~~In applying the conceptual framework a firm shall:~~

(a) ~~When evaluating the significance of threats to independence, take qualitative as well as quantitative factors into account;~~

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(b) ~~If 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;~~

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(c) ~~If the decision is whether to continue an audit engagement, determine whether:~~

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(i) ~~Any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level;~~

(ii) ~~Other safeguards will need to be applied; or~~

⁹ In C1, "audit report" includes "review report."

⁴⁰ Section 800 is under development.

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(iii) The engagement needs to be ended; and

~~(d) Whenever new information about a threat to independence comes to the attention of the firm during an audit engagement, evaluate the significance of that threat in accordance with the conceptual framework.~~

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R400.13 When applying the conceptual framework to independence, if the firm determines that the identified threats to independence are not at an acceptable level, the firm shall address the threats by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or ending the audit engagement or when applicable, the non-assurance service involved.

400.13 A1 ~~There are some situations in which the circumstances creating the threats cannot be eliminated and when there can be no safeguards to eliminate those threats created or reduce them to an acceptable level. In such situations, the professional accountant is required to decline or end the audit engagement or when applicable, the non-assurance service involved.~~

[Paragraphs 400.14 to 400.19 are intentionally left blank]

Related Entities

R400.2014 ~~As defined,~~ an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part C4 include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, ~~and evaluating and addressing~~ threats to independence, ~~and applying~~ appropriate safeguards.

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[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is RequiredEngagement Period

R400.3012 Independence as required by this Part C4 shall be maintained during both:

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

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

The Conceptual Framework contained in Section 120 applies in all circumstances

R400.3143 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

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

R400.3214 If a non-assurance service was provided to the audit client during, or after the period covered by the financial statements, but before the audit team begins to perform audit services, and the service would not be permitted during the engagement period, the firm shall evaluate ~~any the level of the threat to independence created by the service~~. If a threat is not at an acceptable level, the firm shall only accept the audit engagement if ~~safeguards are applied to eliminate any the threats are addressed, or reduce them to an acceptable level~~.

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400.3244 A1. Examples of ~~actions that might be safeguards to address threats to independence~~ include:

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

[Paragraphs 400.32 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

R400.4015 A firm shall comply with paragraph R300.83 when communicating with those charged with governance.

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400.4015 A1 Even when not required by the Code, applicable professional standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

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- (a) Consider the firm's judgments in identifying and evaluating threats ~~to the fundamental principles~~;
- (b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and
- (c) Take appropriate action.

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

The Conceptual Framework contained in Section 120 applies in all circumstances

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Subsection 401 – Network Firms

Introduction

401.1 ~~To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. A larger structure is a network if it is aimed at co-operation and, for example, the firms share a common brand name, a common system of quality control, or significant professional resources. Alternatively, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.~~

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Requirements and Application Material

R400.50401.2 ~~A network firm shall be independent of the audit clients of the other firms within the network as required by this Part, where C1 specifically requires such independence.~~

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400.50 A1401.1 ~~To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. A larger structure is a network if it is aimed at co-operation and, for example, the firms share a common brand name, a common system of quality control, or significant professional resources. Alternatively, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.~~

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400.50 A2401.3 A1 ~~The independence requirements in this Part C1 that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.~~

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R400.51401.3 ~~When associated with a larger structure of other firms and entities, a firm shall:~~

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- (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 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.

401.3 A1 ~~The independence requirements in C1 that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.~~

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The Conceptual Framework contained in Section 120 applies in all circumstances

400.51 A1401.3-A2 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 jointly to provide a service or develop a product does not in itself create a network.

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400.51 A2401.3-A3 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.

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400.51 A3401.3-A4 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.

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400.51 A4401.3-A5 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.

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400.51 A5401.3-A6 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.

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400.51 A6401.3-A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network.

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400.51 A7401.3-A8 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:

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- Common systems that enable firms to exchange information such as client data, billing and time records.
- Partners and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit methodology or audit manuals.

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- Training courses and facilities.

400.51 A8401.3 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

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- 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 the shared resources involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

R400.52401.4 If a firm or a network sells a component of its practice the relevant entities, in certain circumstances, shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

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400.52 A1 The agreement for the sale of a component of a practice might provides that, for a limited period of time, the sold component might can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation and are therefore not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

[Paragraphs 400.53 to 400.59 are intentionally left blank]

Subsection 402—General Documentation of Independence for Audits and Reviews Engagements

Introduction

402.1 Documentation provides evidence of the firm's judgments when forming conclusions regarding compliance with independence requirements.

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Requirements and Application Material

R400.60402.2 A firm shall document conclusions regarding compliance with this Part independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

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- (a) When safeguards are required applied to address reduce a threat to an acceptable level, the firm shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and
- (b) When a threat required significant analysis to determine whether safeguards were necessary are available and capable of being applied in order to address a threat, and

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the firm concluded that they were not because the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

~~400.60 A1402.1 Documentation provides evidence of the firm's judgments when forming conclusions regarding compliance with this Part. 402.2 A1. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent, as required by C1.~~

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[Paragraphs 400.61 to 400.69 are intentionally left blank]

Subsection 403—Mergers and Acquisitions

Introduction

~~400.70 A1403.1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence, and therefore, the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.~~

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Requirements and Application Material

~~R400.71403.3 In the circumstances set out in paragraph 400.70 A1,~~

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- ~~(a) In the circumstances set out in paragraph 403.1, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and~~
- ~~(b) In the circumstances set out in paragraph 403.1, Subject to R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.~~

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~~R400.72403.13 (c) As an exception to R400.71403.3(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:~~

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

~~400.72 A1403.2 In some circumstances, it might not be reasonable to end an interest or relationship creating a threat cannot reasonably be ended by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.~~

~~400.72 A2403.3 A1 The higher the level of more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat to objectivity might depend upon factors that are important in evaluating the level of any threats created by mergers and acquisition includes such as:~~

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

R400.73403.4 If those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

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- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Sections 600 to 699C4, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1403.4 A1 Examples of transitional measures include:

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

R400.74 403.5 The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1403.4, the firm shall only do so if it:

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- (a) Has evaluated the significance level of the threat created by such interest or relationship and discussed the results evaluation with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73403.4(a) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

R400.75403.6 When addressing previous and current interests and relationships set out in paragraph 400.70 A1403.4, the firm shall determine whether, even if all the requirements and application material of paragraphs R400.71403.3 to R400.74403.5 could be met, the interests

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and relationships create threats that would remain so significant that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

R400.76403.7

The firm shall document:

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- (a) Any interests or relationships set out in paragraph 400.70 A1403.1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create threats that would remain so significant such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Subsection 404 — Breach of an Provision of Independence for Audits and Reviews Independence Provision

Introduction

404.1 A breach of a provision of C1 might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit engagement because of the breach.

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Requirements and Application Material
When a Firm Identifies a Breach

R400.80404.2 If a firm concludes that a breach of a requirement in this Part an independence provision of C1 has occurred, the firm shall:

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

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(iv) Those subject to the independence requirements in this Part who need to take appropriate action;

(d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and

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(e) Depending on the significance of the breach, determine whether:

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(i) Whether to end the audit engagement; or

(ii) Whether it might be possible to take action that satisfactorily addresses the consequences of the breach, and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit report.

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400.80 A1404.1 A breach of a provision of this Part might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit engagement because of the breach.

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400.80 A2404.2 A1 When a breach of this Part independence requirements set out in C1 is identified, the significance and impact of the breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

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

400.80 A3404.2 A2 Depending upon the significance of the breach, examples of actions that the firm might consider to satisfactorily to address the breach include:

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- Removing the relevant individual from the audit team.

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

R400.81404.3 If the firm determines that it cannot take action to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

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R400.82404.4 If the firm determines that it can take action to satisfactorily address the consequences of the breach, the firm shall discuss with those charged with governance:

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

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

Communication with Those Charged with Governance — Breaches of an Independence Provision

R400.83404.5 The firm shall communicate in writing to those charged with governance:

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- (a) All matters discussed in accordance with paragraphs R404.2 to R400.82404.4 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

The Conceptual Framework contained in Section 120 applies in all circumstances

R400.84404.6 If those charged with governance do not concur that the action proposed by the firm in accordance with R400.80404.2(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with the provisions set out in paragraph R400.81404.3.

Commented [IESBA226]: 290.47

Breaches Before the Previous Audit Report Was Issued

R400.85404.7 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of this Part C1 in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.

Commented [IESBA227]: 290.48

R400.86404.8 The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports, and discuss the matter with those charged with governance.

Commented [IESBA228]: 290.48

Documentation – Breaches of an Independence Provision

R400.87404.9 In applying the paragraphs provisions of R400.80404.1 to R400.86404.8, the firm shall document:

Commented [IESBA229]: 290.49

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

R400.88404.10 If the firm continues with the audit engagement, it shall also document the conclusion that, in the firm's professional judgment, objectivity has not been compromised and why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

Commented [IESBA230]: 290.49

Section 410

Fees

Introduction

410.1 The level and nature of fees or other types of remuneration might create self-interest or intimidation threats to independence. For example, such threats might be created by:

Commented [IESBA231]: New paragraph

The amount of fees from an audit client relative to the total fees of the firm or an individual partner or office of the firm.

Commented [IESBA232]: 290.217, 290.218

Fees from an audit client that remain unpaid for a long time.

Commented [IESBA233]: 290.220

Charging contingent fees to an audit client.

Commented [IESBA234]: 290.221

The Conceptual Framework contained in Section 120 applies in all circumstances

410.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 410 sets out specific requirements and application material relevant to on applying the conceptual framework to fees or other remuneration.

Requirements and Application Material

~~R410.2 A firm shall apply the conceptual framework set out in Section 120 to fees or other remuneration.~~

Commented [IESBA235]: New paragraph

Fees – Relative Size

410.3 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors that are important in evaluating the level of those threats includesuch as:

Commented [IESBA236]: 290.217

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

410.3 A2 Examples of actions that might be safeguards to address threats created by fees charged inc include:

Commented [IESBA237]: 290.217

- Reducing dependence on the client.
- External quality control reviews.
- Consulting a third party, such as a professional or regulatory body or a professional accountant, on key audit judgments.

410.3 A3 A self-interest or intimidation threat is also created when the fees generated by the firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

Commented [IESBA238]: 290.218

The significance of the threat will depend upon factors that are important in evaluating the level of any threat created by fees generated from an audit client includesuch as:

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

410.3 A4 Examples of actions that might be safeguards to address threats created by fees generated from an audit client include:

Commented [IESBA239]: 290.218

- Reducing dependence on the audit client.
- Having a professional accountant review the work or advise as necessary.

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Audit Clients that are Public Interest Entities

R410.4 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph R400.14) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

Commented [IESBA240]: 290.219

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

R410.5 When the total fees described in R410.4 significantly exceed 15%, the firm shall:

Commented [IESBA241]: 290.219

- (a) ~~Determine~~ Evaluate whether the ~~level~~ significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level; and
- (b) In such circumstances, have a pre-issuance review performed.

R410.6 If the fees described in R410.4 continue to exceed 15%, the firm shall each year:

Commented [IESBA242]: 290.219

- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and
- (b) Comply with the provisions set out in paragraphs R410.4(b) and R410.5.

Fees – Overdue

R410.7 When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement because of the significance of the overdue fees.

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Commented [IESBA243]: 290.220

410.7 A2 An example of a safeguard is having an additional professional accountant, who did not take part in the audit engagement, provide advice or review the work performed, is an example of an action that might be a safeguard to address threats created by overdue fees.

Commented [IESBA244]: 290.220

Commented [IESBA245]: 290.220

Contingent Fees

R410.8- A firm shall not charge directly or indirectly, for example through an intermediary, a contingent fee for an audit engagement.

Commented [IESBA246]: 290.22

R410.9- A firm or network firm shall not charge directly or indirectly, for example through an intermediary, a contingent fee for a non-assurance service provided to an audit client, if:

Commented [IESBA247]: 290.223

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

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

Commented [IESBA248]: 290.221

410.9 A2 Paragraphs R410.8 and R410.9 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if such contingent fee arrangements are not precluded when providing a non-assurance service to an audit client, a self-interest threats might still be created. The existence and significance of any threats will depend on factors that are important in evaluating the level of those threats include such as:

Commented [IESBA249]: 290.224

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

410.9 A3 Examples of actions that might be safeguards to address threats created by contingency fees include:

Commented [IESBA250]: 290.224

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Section 411

Compensation and Evaluation Policies

Introduction

411.1 Evaluation or compensation policies might create self-interest threats.

Commented [IESBA251]: 290.225

411.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 411 sets out specific requirements and application material relevant to ~~an~~ applying the conceptual framework to compensation and evaluation policies.

Requirements and Application Material

R411.2 ~~A firm shall apply the conceptual framework set out in Section 120 to compensation and evaluation policies.~~

Commented [IESBA252]: 290.225

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

Commented [IESBA253]: 290.225

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

411.32 A2 Examples of actions that might be safeguards in addressing threats created by compensation and evaluation policies include:

Commented [IESBA254]: 290.225

- Revising the compensation plan or evaluation process for that individual.
- Removing such members from the audit team.
- Having a professional accountant review the work of the audit team member.

R411.43 A key audit partner shall not be evaluated or compensated based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

Commented [IESBA255]: 290.226

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 420

Gifts and Hospitality

Introduction

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

Commented [IESBA256]: 290.227

Requirements

- ~~R420.2 A firm shall apply the conceptual framework set out in Section 120 to accepting gifts or hospitality from an audit client.~~
- R420.3 ~~A firm, a network firm~~ or an audit team member shall not accept gifts or hospitality from an audit client, unless the value is trivial and inconsequential.

Commented [IESBA257]: New paragraph

Commented [IESBA258]: 290.227

Section 430

Actual or Threatened Litigation

Introduction

- 430.1 ~~When litigation occurs, or appears likely, between an audit client and the firm, a network firm or an audit team member, self-interest and intimidation threats are created.~~
- 430.2 ~~Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 430 sets out requirements and specific application material relevant to~~ ~~on~~ applying the conceptual framework to such actual or threatened litigation.

Commented [IESBA259]: 290.228

Requirements and Application Material

- ~~R430.2 A firm shall apply the conceptual framework set out in Section 120 if there is actual or threatened litigation between the audit client and:~~
- ~~(a) The firm;~~
 - ~~(b) A network firm; or~~
 - ~~(c) An audit team member.~~
- 430.2 A1 ~~The relationship between client management and the audit team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. The adversarial positions which could result from actual or threatened litigation might affect management's willingness to make complete disclosures and create self-interest~~

Commented [IESBA260]: New paragraph.

Commented [IESBA261]: 290.228

The Conceptual Framework contained in Section 120 applies in all circumstances

and intimidation threats. The significance of the threats created by actual or threatened litigation might depend on factors that are important in evaluating the level of such threats include:

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

430.2 A2 Examples of actions that might be safeguards to address threats created by actual or threatened litigation include:

- If the litigation involves an audit team member, removing that individual from the audit team.
- Having a professional review the work performed.

Commented [IESBA262]: 290.228

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Section 510

Financial Interests

Introduction

510.1 Holding a financial interest in an audit client might create self-interest threats.

Commented [IESBA263]: 290.102

510.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 510 sets out specific requirements and application material relevant to applying the conceptual framework to financial interests.

510.1 Holding a financial interest in an audit client might create a self-interest threat. The existence and significance of any threat depends on:

Commented [IESBA264]: 290.102

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

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

510.2 Financial interests might be held directly or indirectly through an intermediary (for example, a collective investment vehicle, estate or trust). When a beneficial owner has control over the intermediary or the ability to influence investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or the ability to influence investment decisions, the Code defines that financial interest to be indirect.

Commented [IESBA265]: 290.103

510.3 Section 510 contains references to the "materiality" of a financial interest. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA266]: 290.101

The Conceptual Framework contained in Section 120 applies in all circumstances

Requirements and Application Material

R510.4 A firm shall apply the conceptual framework set out in Section 120 to financial interests.

Applying the Conceptual Framework to Financial Interests

510.34 A1 Holding a financial interest in an audit client might create a self-interest threat. ~~The existence and significance of any threat~~ Factors that are important in evaluating threats created by holding financial interests in an audit include ~~depends on~~:

Commented [IESBA267]: 290.102

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

~~Section 510 sets out requirements and application material on applying the conceptual framework to financial interests.~~

510.32 A2 A financial interest might be held through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or the ability to influence investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

Commented [IESBA268]: 290.103

510.3 A3 Section 510 contains references to the "materiality" of a financial interest. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA269]: 290.101

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

R510.45 Subject to R510.5, a direct financial interest or a material indirect financial interest in the audit client shall not be held by:

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

Commented [IESBA270]: 290.104

Commented [IESBA271]: 290.104

Commented [IESBA272]: 290.108

Commented [IESBA273]: 290.110

510.45 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other members of the audit team, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

Commented [IESBA274]: 290.109

The Conceptual Framework contained in Section 120 applies in all circumstances

R510.56 As an exception to paragraph R510.45, an immediate family member identified in subparagraphs 510.45(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

Commented [IESBA275]: 290.111

- (a) The family member received the financial interest because of employment rights (for example, through pension or share option plans);
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option; and
- (c) When necessary, the firm applies safeguards to eliminate any threat to independence or reduce it to an acceptable level.

R510.67 When an entity has a controlling interest in an audit client and the audit client is material to the entity, neither the firm, nor a network firm, nor an audit team member, nor any of that individual's immediate family member shall hold a direct or material indirect financial interest in that entity.

Commented [IESBA276]: 290.106

Financial Interests Held as Trustee

R510.78 Paragraph R510.45 shall also apply to a financial interest in an audit client held in a trust for which the firm, network firm or individual acts as trustee ~~as it does to other financial interests~~, unless:

Commented [IESBA277]: 290.114

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

Financial Interests in Common with the Audit Client

R510.89 (a) A firm, or a network firm, or an audit team member, or any of that individual's immediate family member shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:

Commented [IESBA278]: 290.112

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

(b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit team member, the individual or that individual's immediate family member shall either:

Commented [IESBA279]: 290.112

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Unintended Acquisition of Interests

R510.910 If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family member, receives a direct financial interest or a material indirect financial interest in an audit client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section then:

Commented [IESBA280]: 290.116

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

Financial Interests – Other circumstances

R510.1044 In the following circumstances related to financial interests, the firm shall apply the conceptual framework set out in Section 120:

- (a) If an audit team member knows that a close family member has a direct or material indirect financial interest in the audit client. (Ref: Para. 510.1044 A1, 510.10 A2).
- (b) If the retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.
- (c) If an audit team member, or that any of that individual's immediate family member, or the firm or a network firm, has a financial interest in an entity and a director or officer or controlling owner of the audit client is also known to have a financial interest in the same entity. (Ref: Para. 510.1044 A3, 510.10 A4).
- (d) If an audit team member knows that a financial interest in the audit client is held by other individuals, such as:
 - (i) Partners and professional employees of the firm or network firm, apart from in addition to those who are specifically not permitted to hold such financial interests by paragraph R510.5, or their immediate family members; or

Commented [IESBA281]: 290.105

Commented [IESBA282]: 290.107

Commented [IESBA283]: 290.113

Commented [IESBA284]: 290.115

The Conceptual Framework contained in Section 120 applies in all circumstances

(ii) Individuals with a close personal relationship with an audit team member. (Ref: Para. 510.1044 A5, 510.10 A6).

510.1044 A1 A self-interest threat might be created if an audit team member has a close family member who the audit team member knows has a direct or material indirect financial interest in the audit client. ~~The significance of any threat created depends on factors that are important in evaluating the level of such threats include~~ such as:

Commented [IESBA285]: 290.105

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

510.1104 A2 Examples of actions that might be safeguards to address threats created by having financial interest as set out in paragraph 510.10 A1 include:

Commented [IESBA286]: 290.105

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

510.1044 A3 Self-interest, familiarity, or intimidation threats might be created if an audit team member, or any of that individual's immediate family member, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity. ~~The existence and significance of any threat depends upon factors that are important in evaluating the level of such threats include~~ as:

Commented [IESBA287]: 290.113

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

510.1044 A4 Examples of actions that might be safeguards to address threats created by having a financial interest set out in paragraph 510.10 A3 include:

Commented [IESBA288]: 290.113

- Removing the audit team member with the financial interest from the audit team.
- Having a professional accountant review the work of the audit team member.

510.1044 A5 Whether the interests set out in paragraph R510.1044(d) create a self-interest threat depends on factors such as:

Commented [IESBA289]: 290.115

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

510.1044 A6 Examples of actions that might be safeguards to address threats created by a financial interest set out in paragraph 510.10 A5 include:

Commented [IESBA290]: 290.115

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Section 511

Loans and Guarantees

Introduction

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

Commented [IESBA291]: New paragraph

511.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 511 sets out specific requirements and application material relevant to ~~en~~ applying the conceptual framework to loans and guarantees.

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

Commented [IESBA292]: 290.101

Requirements and Application Material

R511.3 A firm shall apply the conceptual framework set out in Section 120 to loans and guarantees.

Commented [IESBA293]: New paragraph

Applying the Conceptual Framework to Loans and Guarantees

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

Commented [IESBA294]: 290.101

Loans and Guarantees with a Bank or Similar Institution

R511.34 A firm, a network firm, an audit team member, or any of that individual's immediate family member shall not accept a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Commented [IESBA295]: 290.117

511.34 A1 If a loan to a firm or network firm from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it might be possible to ~~apply safeguards to reduce~~ address the self-interest threat, ~~to an acceptable level.~~

Commented [IESBA296]: 290.118

The Conceptual Framework contained in Section 120 applies in all circumstances

511.4 A2 ~~An example of such a safeguard is having the work reviewed by a professional accountant from a network firm that is neither involved with the audit nor received the loan is an example of an action that might be a safeguard to address such threats.~~

Commented [IESBA297]: 290.118

511.34 A23 A loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution to an audit team member, or any of that individual's immediate family member, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans, and credit card balances.

Commented [IESBA298]: 290.119

Deposits or Brokerage Accounts

R511.46 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Commented [IESBA299]: 290.122

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

R511.5 A firm, a network firm, an audit team member, or any of that individual's immediate family member shall not accept a loan from, or have a borrowing guaranteed by, an audit client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

Commented [IESBA300]: 290.120

- (a) The firm, the network firm, or the audit team member and the immediate family member receiving the loan or guarantee, as the case may be; and
- (b) The client.

R511.6 A firm, a network firm, an audit team member, or any of that individual's immediate family member shall not make or guarantee a loan to an audit client unless the loan or guarantee is immaterial to:

Commented [IESBA301]: 290.121

- (a) The firm, the network firm or the audit team member and the immediate family member making the loan or guarantee, as the case may be; and
- (b) The client.

Deposits or Brokerage Accounts

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

Commented [IESBA302]: 290.122

Section 520

Business Relationships

Introduction

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Commented [IESBA303]: 290.123

520.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 520 sets out specific requirements and application material relevant to applying the conceptual framework to these business relationships.

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

Commented [IESBA304]: 290.101

Requirements and Application Material

R520.3 A firm shall apply the conceptual framework set out in Section 120 to business relationships.

Applying the Conceptual Framework to Business Relationships

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

Commented [IESBA305]: 290.101

Firm, Network Firm or Audit Team Member Relationships

R520.4 The firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any the financial interest is immaterial and the business relationship is insignificant to the firm, the network firm or the audit team member, as the case may be, and the client or its management.

Commented [IESBA306]: 290.123

520.4 A1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

Commented [IESBA307]: 290.123

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

The Conceptual Framework contained in Section 120 applies in all circumstances

Common Interests in Closely-Held Entities

R520.5 The firm, a network firm, an audit team member, or any of that individual's immediate family member shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

Commented [IESBA308]: 290.124

- (a) The business relationship is insignificant to the firm, the network firm, or the audit team member and the immediate family member, as the case may be, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

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

Commented [IESBA309]: 290.125

520.6 A2 Examples of actions that might be safeguards to address threats created by purchasing goods and services from an audit client include:

Commented [IESBA310]: 290.125

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

Section 521

Family and Personal Relationships

Introduction

521.1 A family or personal relationships between firm and client personnel an audit team member and a director or officer or other employees of the audit client (depending on their role) might create self-interest, familiarity or intimidation threats.

Commented [IESBA311]: 290.126

521.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence Section 521 sets out specific requirements and application material relevant to ~~on~~ applying the conceptual framework to these family or personal relationships.

Requirements and Application Material

R521.2 ~~A firm shall apply the conceptual framework set out in Section 120 to family and personal relationships.~~

Commented [IESBA312]: New paragraph

The Conceptual Framework contained in Section 120 applies in all circumstances

Applying the Conceptual Framework to Family and Personal Relationships

521.2 A1 ~~The existence and significance~~ Factors that are important to evaluating the level of any self-interest, familiarity or intimidation threats created by family and personal relationships between an audit team member and a director or officer or, depending on their role, certain employees of the audit client, will depend on a number of factors, including

Commented [IESBA313]: 290.126

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

Immediate Family of Audit Team Member

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

Commented [IESBA314]: 290.128

The significance of the threats will depend on factors such as:

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

521.3 A2 Examples of actions that might be safeguards to address threats described in paragraph 521.3 A2 include:

Commented [IESBA315]: 290.128

- Removing the individual from the audit team.
- Structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.

R521.43 An individual shall not participate as an audit team member when any of that individual's immediate family-member:

Commented [IESBA316]: 290.127

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

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

Commented [IESBA317]: 290.128

~~The significance of the threats will depend on factors such as:~~

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

The Conceptual Framework contained in Section 120 applies in all circumstances

521.3 A2 Examples of safeguards include:

- Removing the individual from the audit team.
- Structuring the responsibilities of the audit team so that the audit team member professional does not deal with matters that are within the responsibility of the immediate family member.

Commented [IESBA318]: 290.128

Close Family of Audit Team Member

521.54 A1 Threats to independence are created when a close family member of an audit team member is:

Commented [IESBA319]: 290.129

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

The significance of the threats Factors that are important in evaluating the level of threats created by the relationships set out in paragraph 521.5 A1 include will depend on factors such as:

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

521.54 A2 Examples of actions that might be safeguards to address threats created by the relationships set out in paragraph 521.5 A1 include:

Commented [IESBA320]: 290.129

- Removing the individual from the audit team.
- Structuring the responsibilities of the audit team so that the professional audit team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of Audit Team Member

R521.65 An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:

Commented [IESBA321]: 290.130

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

The Conceptual Framework contained in Section 120 applies in all circumstances

521.65 A1 ~~The significance of the threats created by Factors that are important to evaluating the level of threats created by a relationships set out in paragraph R521.5 will depend on factors such as include:~~

Commented [IESBA322]: 290.130

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

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

Commented [IESBA323]: 290.130

- Removing the individual professional from the audit team.
- Structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.

Relationships of Partners and Employees of the Firm or Network Firm

R521.67 ~~Partners and employees of the firm shall consult in accordance with firm or network firm policies and procedures if they are aware of a personal or family relationship between:~~

Commented [IESBA324]: 290.131

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

521.76 A1 ~~The existence and significance of Factors that are important in evaluating the level of any threat will depend on factors such as created by such relationships include:~~

Commented [IESBA325]: 290.131

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

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

Commented [IESBA326]: 290.131

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

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 522

Recent Service with an Audit Client

Introduction

522.1 ~~Self-interest, self-review or familiarity threats might be created if an audit team member has recently served as a director or officer, or employee of the audit client. For example, an audit team member might have to evaluate elements of the financial statements when that individual prepared the relevant accounting records while with the client.~~

Commented [IESBA327]: 290.141

522.2 ~~Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 522 sets out specific requirements and application material relevant to~~ applying the conceptual framework in circumstances where audit team members have served with an audit client.

Requirements and Application Material

~~R522.2 A firm shall apply the conceptual framework set out in Section 120 when an audit team member has served recently with an audit client.~~

Commented [IESBA328]: New paragraph

~~R522.23 The audit team shall not include an individual who, during the period covered by the audit report:~~

Commented [IESBA329]: 290.142

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

~~522.23 A1 Self-interest, self-review or familiarity threats might be created if, before the period covered by the audit report, an audit team member:~~

Commented [IESBA330]: 290.143

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

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

~~522.23 A2 The existence and significance of any threats will depend on factors that are important in evaluating the level of any threats created by such recent service with an audit client includesuch as:~~

Commented [IESBA331]: 290.143

- The position the individual held with the client.
- The length of time since the individual left the client.

The Conceptual Framework contained in Section 120 applies in all circumstances

- The role of the professional on the audit team member.

522.23 A3 An example of an action that might be a safeguard to address the threats set out in paragraph 522.3 A1 is conducting a review of the work performed by the individual as an audit team member.

Commented [IESBA332]: 290.143

Section 523

Serving as a Director or Officer of an Audit Client⁴⁴

Introduction

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

Commented [IESBA333]: 290.144

523.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 523 sets out specific requirements and application material relevant to applying the conceptual framework in these circumstances.

523.2 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties, such as personnel management and the maintenance of company records and registers; to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity. (See also Section 600 and Subsections 601 and 602 in relation to providing non-assurance services to an audit client).

Commented [IESBA334]: 290.145

Requirements and Application Material

R523.3 A partner or employee of the firm or a network firm shall not serve as a director or officer of an audit client of the firm.

Commented [IESBA335]: 290.144

R523.4 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit client of the firm, unless:

Commented [IESBA336]: 290.146

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

A firm shall apply the conceptual framework set out in Section 120 if a partner or employee of the firm or a network firm performs those duties and activities for an audit client.

523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties, such as personnel management and the maintenance of company records and registers; to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is

Commented [IESBA337]: 290.145

⁴⁴ This draft reflects the amended provisions related to non-assurance services taking effect April 2016

The Conceptual Framework contained in Section 120 applies in all circumstances

seen to imply a close association with the entity. (See also Section 600 relation to providing non-assurance services to an audit client.)

Section 524

Employment with an Audit Client

Introduction

524.1 ~~An employment relationship between a former partner or employee of a firm or network firm and an audit client might create familiarity or intimidation threats. In particular, such threats might be created if any of the following individuals have been an audit team member or partner of the firm:~~

Commented [IESBA338]: 290.132

~~A director or officer of the audit client.~~

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

524.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 524 sets out specific requirements and application material relevant to applying the conceptual framework to these employment relationships.

Requirements and Application Material

R524.2 ~~A firm shall apply the conceptual framework set out in Section 120 to employment with an audit client.~~

Commented [IESBA339]: New paragraph

Applying the Conceptual Framework to Employment Relationships

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

Commented [SDS340]: 290.132

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

R524.3 ~~The firm shall ensure that no significant connection remains between the firm or a network firm and:~~

Commented [IESBA341]: 290.133

- ~~• A former partner who joins an audit client of the firm; or~~
- ~~• A former audit team member who joins the audit client,~~

~~if either has joined the audit client as:~~

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

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Commented [IESBA342]: 290.133

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

524.3-4 A2 If one of those individuals joins the audit client in such a position and no significant connection remains between the firm or the network firm and the individual, the existence and significance of the following factors are important in evaluating the level of any familiarity or intimidation threats created will depend on factors such as:

Commented [IESBA343]: 290.134

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

524.3-4 A3 Examples of actions that might be safeguards to address threats created by such employment relationships include:

Commented [IESBA344]: 290.134

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

524.3-4 A4 The requirement to apply the conceptual framework also applies if, prior to an entity becoming a client of the firm, a former partner of the firm or network firm has joined the entity as:

Commented [IESBA345]: 290.135

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

R524.54 A firm or network firm shall:

Commented [IESBA346]: 290.136

Have policies and procedures that require audit team members to notify the firm or network firm, as the case may be, when entering employment negotiations with an audit client; and
On receiving such notification, apply the conceptual framework.

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

Commented [IESBA347]: 290.136

The Conceptual Framework contained in Section 120 applies in all circumstances

524.54 A2 Examples of action that might be safeguards to address threats created by the threat set out in paragraph 524.5 A1 include:

Commented [IESBA348]: 290.136

- Removing the individual from the audit team.
- Reviewing any significant judgments made by that individual while on the team.

Audit Clients that are Public Interest Entities

Key Audit Partners

R524.65 Subject to R524.8, if an individual who was a key audit partner joins an audit client of the firm that is a public interest entity as:

Commented [IESBA349]: 290.137

- A director or officer; or
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, independence is compromised, unless subsequent to the partner ceasing to be a key audit partner:

- (a) The public interest entity has issued audited financial statements covering a period of not less than twelve months; and
- (b) The partner was not an audit team member with respect to the audit of those financial statements.

Chief Executive of the Firm

R524.76 Subject to R524.8, if an individual who was the Chief Executive, or equivalent, of the firm or a network firm joins an audit client that is a public interest entity as:

Commented [IESBA350]: 290.138

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

Business Combinations

R524.87 A1 As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs R524.5 and R524.6 arise as a result of a business combination and:

Commented [IESBA351]: 290.139

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined

The Conceptual Framework contained in Section 120 applies in all circumstances

arrangements and any amount owed to the partner is not material to the firm or network firm;

- (c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the position held with the audit client by the former partner with those charged with governance.

Section 525

Temporary Personnel Assignments

Introduction

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

Commented [IESBA352]: 290.140

525.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 525 sets out specific requirements and application material relevant to applying the conceptual framework to loans of firm or network firm personnel to an audit client.

Requirements and Application Material

R525.2 A firm shall apply the conceptual framework set out in Section 120 to temporary personnel assignments.

Commented [IESBA353]: New paragraph

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

Commented [IESBA354]: 290.140

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

R525.43 A firm or network firm shall not loan personnel to an audit client unless:

Commented [IESBA355]: 290.140

- (a) Such assistance is provided only for a short period of time; and
- (b) The personnel are not involved in:
 - (i) Providing non-assurance services that would not be permitted under Sections 600 to 699C4; or
 - (ii) Assuming management responsibilities.

In all circumstances, the audit client is responsible for directing and supervising the activities of the loaned personnel.

The Conceptual Framework contained in Section 120 applies in all circumstances

[540 Reserved for Long Association – See Agenda Item 5]

[600 Reserved for Non-Assurance Services – See Agenda Item 2-F]

[700 Reserved for Future Use]

[800 Reserved for Reports that Include a Restriction on Use and Distribution – See Agenda Item 3-E]

[900 Reserved for Part 4B - Independence for Other Assurance Engagements – See Agenda Item 3-E]

The Conceptual Framework contained in Section 120 applies in all circumstances

GLOSSARY⁴²

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

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

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

Advertising The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.

Assurance client The responsible party that is the person (or persons) who:
(a) In a direct reporting engagement, is responsible for the subject matter; or
(b) In an assertion-based engagement, is responsible for the subject matter information and may might be responsible for the subject matter.

Assurance engagement An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

(For guidance on assurance engagements, see the *International Framework for Assurance Engagements* issued by the International Auditing and Assurance Standards Board. The *International Framework for Assurance Engagements* describes the elements and objectives of an assurance engagement and identifies engagements to which *International Standards on Auditing* (ISAs), *International Standards on Review Engagements* (ISREs) and *International Standards on Assurance Engagements* (ISAEs) apply.)

Assurance team (a) All members of the engagement team for the assurance engagement;

⁴² In this Glossary, defined terms are shown in regular font; italics are used for terms which have a specific meaning in certain Parts of the Code or for additional explanations of defined terms; references are also provided to terms described in the Code.

* This dDefinitions with an asterisk "" are has been shaded in gray as it is included in the Safeguards ED.

The Conceptual Framework contained in Section 120 applies in all circumstances

- (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:
- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Audit

~~In C1Part 4A, the term "audit" also refers to includes "review engagement."~~

Commented [SDS356]: 290.3

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. (See also R400.2044.)

~~In C1Part 4A, the term "audit client" also refers to includes "review client."~~

Commented [IESBA357]: 290.3

Audit engagement

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

~~In C1Part 4A, the term "audit engagement" also refers to includes "review engagement."~~

Commented [IESBA358]: 290.3

Audit report

~~In C1Part 4A, the term "audit report" also refers to includes "review report."~~

Commented [IESBA359]: 290.3

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner

The Conceptual Framework contained in Section 120 applies in all circumstances

through to the individual who is the firm's Chief Executive (Senior or Managing Partner ~~(Chief Executive or equivalent)~~);

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

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

In C1 Part 4A, the term "audit team" also refers to includes "review team."

Commented [IESBA360]: 290.3

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

Commented [IESBA361]: 290.30

The Conceptual Framework contained in Section 120 applies in all circumstances

<u>Engagement Period (Other Assurance Engagements)</u>	<u>The engagement period starts when the assurance team begins to perform assurance services. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.</u>
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i> .
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

Commented [IESBA362]: 291.30

The Conceptual Framework contained in Section 120 applies in all circumstances

Financial statements on which the firm will express an opinion In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.5 and 900.4 explain how the word "firm" is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.

Fundamental Principles *These terms are described in paragraphs:*

<i>Integrity</i>	<i>R111.1</i>
<i>Objectivity</i>	<i>R112.1</i>
<i>Professional competence and due care</i>	<i>R113.1</i>
<i>Confidentiality</i>	<i>R114.1</i>
<i>Professional behavior</i>	<i>R115.2</i>

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

Immediate family A spouse (or equivalent) or dependent.

Independence Independence comprises:

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

The Conceptual Framework contained in Section 120 applies in all circumstances

~~The relationship of independence to objectivity is described in paragraphs 112.3 A1 and 400.1.~~

As set out in paragraphs 400.6 and 900.5, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B, as applicable.

Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
Materiality*	<u>This term is described in paragraphs 510.3 A1, 511.4 A1, 520.3 A1, 910.3 A1, 911.2 A1 and 920.1 A1 for use in the relevant context of each of those sections.</u> <u>Materiality in Relation to An Audit of Financial Statements is described in paragraph 600.3 A5 and is relevant for Sections 600 to 699.</u>
Network	A larger structure: (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to a network. For further information see Subsection 401 <u>paragraphs 400.50 to 400.52 A11.</u>
Office	A distinct sub-group, whether organized on geographical or practice lines.

The Conceptual Framework contained in Section 120 applies in all circumstances

Professional accountant An individual who is a member of an IFAC member body.

In Part 1-A, the term "professional accountant" refers to professional accountants in business and to professional accountants in public practice and their firms.

In Part 2-B, the term "professional accountant" refers to professional accountants in business.

In Parts 3, 4A and 4B-C, the term "professional accountant" refers to professional accountants in public practice and their firms.

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Professional accountant in business A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not-for-profit sector, regulatory bodies or professional bodies, or an ~~un~~ professional accountant contracted by such entities.

Professional accountant in public practice A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.
This term is also used to refer to a firm of professional accountants in public practice.

Professional activity An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.

Professional services Professional activities performed for clients.

Public interest entity (a) A listed entity; and
(b) An entity:
(i) Defined by regulation or legislation as a public interest entity; or
(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation ~~may~~ might be promulgated by any relevant regulator, including an audit regulator.
Other entities might also be considered to be public interest entities, as set out in paragraph 400.6.

Reasonable and Informed Third Party Concept* The ~~concept of a reasonable and informed third party is a test which involves an evaluation or~~ consideration by the professional accountant about whether the same conclusions would likely be reached by another person—a hypothetical person—

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~~Such a person, a reasonable and informed third party, possesses skills, would possess sufficient~~ knowledge and experience to objectively evaluate the appropriateness of the professional accountant's judgments and conclusions, ~~and. This evaluation entails weighing~~ all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the ~~conclusions were made~~ evaluation is made to determine whether the accountant complies with the fundamental principles.

Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none">(a) An entity that has direct or indirect control over the client if the client is material to such entity;(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;(c) An entity over which the client has direct or indirect control;(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and(e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Review client	<p>An entity in respect of which a firm conducts a review engagement.</p>
Review engagement	<p>An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.</p>
Review team	<ul style="list-style-type: none">(a) All members of the engagement team for the review engagement; and(b) All others within a firm who can directly influence the outcome of the review engagement, including:<ul style="list-style-type: none">(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement,

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including those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive, (Senior or Managing Partner ~~(Chief Executive~~ or equivalent);

- (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

Safeguards* Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level. This term is described in paragraph 120.7 A2

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

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

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

- Self Interest* 120.5 A32(a) & 300.52 A1(a)
- Self-review* 120.5 A32(b) & 300.52 A1(b)
- Advocacy* 120.5 A32(c) & 300.52 A1(c)
- Familiarity* 120.5 A32(d) & 300.52 A1(d)
- Intimidation* 120.5 A32(e) & 300.52 A1(e)

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Appendix

As explained in paragraph 19 of Appendix 1 of **Agenda Item 3-A**, the Structure Task Force is proposing to revise the numbering pattern to use increments of 5 in order to better accommodate future expansion of the Code. The renumbering is illustrated in the Table of Contents in this appendix but has not yet been reflected throughout the rest of the text.

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Glossary