

Exposure Draft

December 2015

Comments due: April 18, 2016

*International Ethics Standards Board for
Accountants®*

Improving the Structure of the Code of Ethics for Professional Accountants— Phase 1

IESBA

International
Ethics Standards
Board for Accountants®



This Exposure Draft was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is an independent standard-setting board that develops and issues high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants*, which establishes ethical requirements for professional accountants.

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

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REQUEST FOR COMMENTS

This Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1*, was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. Comments are requested by **April 18, 2016**.

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director at KenSiong@ethicsboard.org

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

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EXPLANATORY MEMORANDUM

I. Introduction

1. It is in the public interest for the *Code of Ethics for Professional Accountants* (the Code) to be understandable and usable. In restructuring the Code, the IESBA is aiming to enhance the understandability and usability of the Code, thereby facilitating its adoption, effective implementation, consistent application, and enforcement.
2. This memorandum provides background to, and an explanation of, the proposed international ethics pronouncement *International Code of Ethics Standards for Professional Accountants*. The IESBA approved the exposure draft (ED) in December 2015.

II. Background

3. This ED sets out a substantial part of the proposed restructured Code. It responds to input from a variety of stakeholders who suggested restructuring to improve understandability and usability of the Code. Feedback from an IFAC Small and Medium Practices (SMP) Committee (SMPC) survey noted that the biggest barrier faced by SMPs in complying with the Code is fully understanding the requirements of the Code. Some users, especially those whose first language is not English, reported difficulty in understanding the Code because of its complexity of language and construction. Others have commented on difficulties in translating some parts of the Code, and understanding complex and long sentences. The IESBA has also received feedback from some regulators regarding the usability of the Code from the perspective of enforceability. These issues may be impacting adoption and implementation.
4. The IESBA has conducted extensive research and outreach in connection with this project. The findings indicate a broad-based appetite for change. There is widespread support from those providing input for restructuring the Code on a timely basis, with particular interest in raising the visibility of the Code's requirements, clarifying who is responsible for compliance with requirements in particular circumstances, and clarifying the language in the Code. In November 2014, the IESBA issued a [consultation paper](#) (CP) to seek input on possible approaches to restructuring the Code and related matters for consideration. These matters included: distinguishing requirements from application material; identification of a firm's or individual professional accountant's responsibility for compliance with requirements in particular circumstances; use of language; and reorganization of the Code. Respondents to the CP included regulators, audit oversight bodies, national standard setters, large and small accounting firms, professional accountancy organizations and individuals. The IESBA is grateful to all who commented on the CP. This memorandum develops the themes raised by CP respondents.
5. The project scope encompasses the entire Code. The IESBA has reviewed all proposed changes for consistency with the objectives of the restructuring. These are to improve the understandability and usability of the Code by restructuring it without changing its meaning, except in limited circumstances where determined necessary by the Board. The IESBA has made significant effort to avoid inadvertent changes in the meaning of the Code. It has also sought to avoid inadvertent reduction in requirements or other weakening of the Code.
6. During the restructuring work, the IESBA identified a number of matters that would involve potential changes outside the scope of the project. The IESBA has noted these matters for further consideration when it develops its next strategy and work plan.

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Highlights of the Restructuring

7. The highlights of the restructuring include:

- Increased prominence of the requirement to apply the conceptual framework and comply with the fundamental principles.
- Requirements distinguished – paragraphs identified with ‘R’.
- Application material generally positioned next to the relevant requirements – paragraphs identified with ‘A’.
- Increased clarity of responsibility – more clearly enabling identification, where relevant, of a firm’s responsibilities and, together with firms’ policies and procedures, the responsibilities of particular professional accountants.
- Increased clarity of language – where possible: simpler and shorter sentences; simplifying complex grammatical structures; increased use of the active voice; avoiding legalistic and archaic terms.

8. Additional aspects of the restructuring are as follows:

- The addition of a *Guide to the Code*.
- Reorganizing the Code as appropriate, to enhance clarity and usability, positioning the Code to take advantage of forthcoming electronic features.
- Organization of the material into more self-contained sections and subsections:
 - Each Section having its own introduction which broadly describes the context, including the threats that may exist, and references the fundamental principles.
 - Revised numbering to facilitate revisions.
- Independence sections moved to the end of the Code and more sub-headings to facilitate navigation.
- Definitions section enhanced and presented as a glossary, which also includes descriptions of terms used.
- A new title for the Code.

9. A [mapping table](#) is available to facilitate tracking of the changes from the extant Code to the proposed restructured Code. In addition, to assist review from the restructured Code back, the IESBA has added comments against each paragraph of this ED to explain its derivation, i.e., whether it is from a particular paragraph in the extant Code or new material.

10. The IESBA has placed most definitions and descriptions in the Glossary, including words that were included in the “Terms Used” Sections in the CP. Descriptions from the Glossary are included in the body of the text and they are marked with a footnote the first time that they occur in a Section. An example of a term that has been included in the Glossary in this way is the term “audit” where it is defined to include “review” for the purposes of the independence provisions applicable to audit and review engagements.¹ Certain important concepts have been left in the body of the materials rather than being set out in the Glossary, including the fundamental principles, the conceptual framework

¹ Set out in the ED, C1

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and network firms. The terms for these concepts are included in the Glossary with a cross reference to where they first appear in the restructured Code.

11. This ED comprises the following parts of the proposed restructured Code under the first phase of the project:
 - Table of Contents
 - Guide to the Code (substantially new material)
 - Part A Introduction to the Code and Fundamental Principles (Extant Part A)
 - Part C Professional Accountants in Public Practice (Part of Extant Part B)
 - C1 Independence for Audit and Review Engagements (Extant Section 290² excluding the paragraphs concerning Long Association, Non-assurance Services, Reports that Include a Restriction on Use and Distribution)
 - Glossary
12. Proposed restructured provisions related to the following topics will be exposed as part of the second phase of the project at a future date:
 - Part B – Professional Accountants in Business³
 - Responding to Non-Compliance with Laws and Regulations
 - Parts of C1 referring to:
 - Long Association
 - Non-assurance Services
 - Reports that Include a Restriction on Use and Distribution
 - C2, Independence – Other Assurance Engagements⁴

III. Significant Matters

Clarifying the Importance of the Conceptual Framework

13. The IESBA is mindful of the importance of the conceptual framework approach. This approach enables professional accountants to address threats to compliance with the fundamental principles regardless of the nature of the particular circumstances, rather than simply focusing on complying with specific requirements. The IESBA has not only retained the conceptual framework approach but also clarified its importance. In addition to including a requirement to apply the conceptual framework at the beginning of each Section, the IESBA has included a sentence in the header to each page of the Code. This is intended to remind professional accountants of the need to apply the conceptual framework in all circumstances.

² Extant Section 290, *Independence – Audit and Review Engagements*

³ Provisions covered under the extant Part C, Phase I project

⁴ Extant Section 291

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Refinements to the Code

Distinguishing Requirements from Application Material

14. Most respondents to the CP supported the suggestion in the CP to distinguish requirements from application material. This was on the basis that the current structure makes it difficult to identify requirements and may impede compliance and enforcement. However, many respondents who supported distinguishing requirements from application material raised concerns regarding the separation of requirements from application material. In response to these concerns, the IESBA has placed application material as close as possible to the relevant requirements.
15. The Requirements component (described in paragraph 7 of the Guide to the Code) identifies requirements that address the specific threats related to the individual section. The provisions set out in this component are denoted by the word “shall.” Professional accountants are required to comply with each one of these provisions unless prohibited by law or regulation or an exception is permitted.

Application Material

16. The Application Material component (described in paragraphs 8 and 9 of the Guide) provides context to facilitate a proper understanding and application of the requirements in the Code. This component includes *inter alia*:
 - Guidance on what a requirement means or is intended to cover.
 - Material laying out matters for the professional accountant’s consideration in applying the requirements.
 - Examples of procedures, including safeguards, that may be appropriate in the context of the engagement or assignment.
17. The word “shall” is not used in the Application Material component. Where it is necessary to refer in Application Material to a requirement that is already established in the Requirements component, wording other than the term “shall” is employed. The IESBA has avoided the use of the present tense in Application Material in relation to actions by the professional accountant. This is to avoid ambiguity as to whether or not there is an obligation on the professional accountant to take the particular actions. Statements referring to actions by professional accountants in Application Material have been drafted to make it clear that there is no intention to create additional requirements. Alternative language has been used to appropriately explain the IESBA’s intentions. If there were any “shall” statements in the extant Code that were determined to be interpretations or examples of the application of a requirement, rather than requirements in their own right, they have been included in an appropriately redrafted form as part of Application Material.

Identification of a Firm’s or Individual Professional Accountant’s Responsibility

18. Most respondents supported reducing the Code’s use of the passive voice and retaining the extant Code’s reference to ISQC 1⁵ to clarify responsibility in the Code.⁶ The proposed revisions include reference to ISQC 1 and responsibility in paragraph 400.7.

⁵ International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁶ As set out in paragraph 290.12 of the extant Code

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19. Some respondents, including a few regulatory respondents, encouraged the IESBA to work with the International Auditing and Assurance Standards Board (IAASB). This was to ensure that any requirements or guidance regarding responsibility included within the Code do not conflict with ISQC 1 or the International Standards on Auditing (ISAs). The IAASB is currently undertaking an initiative to seek stakeholders' input on the issues to be addressed in a potential revision of ISQC 1, including the issue of responsibility. Apart from the restructuring changes to the extant Code's responsibility paragraph,⁷ the IESBA is deferring further consideration of the matter of responsibility until the outcome of the IAASB's consultation on ISQC 1 is known.

Use of Language – Improving Readability and Usability for all Users

20. Some users, especially those whose first language is not English, have reported difficulty in understanding the Code. The proposals in this ED have been designed to enhance the readability and clarity of the Code through various means including, where possible:
- Using simpler and shorter sentences.
 - Simplifying complex grammatical structures.
 - Adding links from the Glossary to terms which, although defined, are described at greater length within the text of the Code, such as "threat."
 - Using the active voice instead of the passive voice.
 - Avoiding repetition of definitions in the body of the text where these are already included in the Glossary.
 - Avoiding legalistic and archaic terms, nuances, and superfluous adjectives.

Navigability

Guide to the Code

21. In response to feedback on the CP, the IESBA has further developed the section *How to Use this Code* proposed in the CP, and renamed it *Guide to the Code*. It draws on the material in the extant Preface. The *Guide to the Code* provides an overview of the Code and covers the following topics:
- The structure of the Code.
 - The authority statements from the existing Code.
 - How to use the Code.
 - Interaction with other ethics standards at the national level.

Sections and Subsections

22. To assist users in navigating the Code, the IESBA has subdivided material into sections and subsections. Sections introduce topics and can have subsections that deal with specific aspects of the topic. For example, the fundamental principles are addressed generally in Section 110. Subsections then discuss the fundamental principles individually.

⁷ Extant paragraph 290.12, ED paragraph 400.7

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Reordering Extant Parts B and C

23. Respondents to the CP were supportive of reversing the order of extant Parts B⁸ and C⁹ to allow the independence provisions to be presented at the end. A few respondents also supported the reordering on the basis that extant Part C, which focuses on the application of the conceptual framework to professional accountants in business, might also be relevant to other professional accountants. In the light of the comments received from respondents to the CP, the IESBA has determined to retain the proposed reordering of extant Parts B and C of the Code.

Tools

24. The preparation of tools to assist users of the Code will be considered after the Code has been restructured. Possible tools that have been noted for future consideration include:
- A matrix summarizing the various types of financial relationships for different categories of individual (such as audit team member, immediate family member, close family member, etc.), or entity (i.e., firm or network firm) that might hold such an interest. This matrix would be designed to help users identify more easily which provisions might apply to their particular situations.
 - A summary reference to documentation requirements and application material in the Code.

Electronic Code

25. The IESBA believes that the proposals in this ED will help position the Code for further enhancements to navigability. Development of further electronic features to assist navigability will be considered after the Code has been restructured, and may include filtering options and enhancements to the navigability of the current electronic Code. Terms in the Glossary will be electronically linked to the body of the Code.

IV. Other Matters

Specific References to Network Firms

26. The extant Code¹⁰ establishes a general rule for the meaning of “firm” where used in extant Section 290 as follows: “firm includes network firm, except where otherwise stated.” The proposed restructured Code distinguishes network firms from firms. In some instances, distinguishing network firms required clarification of the application of a materiality or significance test to network firms.

Title

27. Respondents to the CP suggested various possible titles for the restructured Code. They generally agreed that the labeling and presentation of the section containing the fundamental principles and conceptual framework as a “code” or “standards” should reinforce and not detract from the principles-based approach. There was clear support for labeling and presenting independence sections as standards. The IESBA is of the view that the Code would benefit from a new name that emphasizes both the principles-based foundation and the inclusion of specific requirements. With

⁸ Extant Part B, *Professional Accountants in Public Practice*

⁹ Extant Part C, *Professional Accountants in Business*

¹⁰ Paragraph 290.3

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this in mind, the IESBA proposes that the restructured Code be titled *International Code of Ethics Standards for Professional Accountants*.

V. Project Timetable and Effective Date

28. The IESBA is mindful of the need for appropriate alignment of the timing of issuance of the proposed two Structure EDs (Phases 1 and 2) in relation to the timing of other projects currently in progress. The proposed timing of the sections to be exposed takes account of the expected approval dates for various sections of the Code which are currently under revision or development. For further information, see the [IESBA Update, Restructuring the Code of Ethics for Professional Accountants](#).

VI. Guide for Respondents

29. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.
30. As explained in the Background section above, the objectives of the restructuring are to improve the understandability and usability of the Code by restructuring it without changing its meaning, except in limited circumstances where the IESBA considers this necessary. Respondents are asked to distinguish in their responses between comments on the application of the structure and drafting conventions and comments on any changes in meaning.

Request for Specific Comments

31. The IESBA welcomes views from respondents on the following matters.

Refinements to the Code

1. Do you agree with the proposals, or do you have any suggestions for further improvement to the material in the ED, particularly with regard to:
 - (a) Understandability, including the usefulness of the Guide to the Code?
 - (b) The clarity of the relationship between requirements and application material?
 - (c) The clarity of the principles basis of the Code supported by specific requirements?
 - (d) The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?
 - (e) The clarity of language?
 - (f) The navigability of the Code, including:
 - (i) Numbering and layout of the sections;
 - (ii) Suggestions for future electronic enhancements; and
 - (iii) Suggestions for future tools?

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(g) The enforceability of the Code?

2. Do you believe the restructuring will enhance the adoption of the Code?
3. Do you believe that the restructuring has changed the meaning of the Code with respect to any particular provisions? If so, please explain why and suggest alternative wording.

Other Matters

4. Do you have any comments on the clarity and appropriateness of the term “audit” continuing to include “review” for the purposes of the independence standards?
5. Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?

Title

6. Is the proposed title for the restructured Code appropriate?

Request for General Comments

32. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
 - (a) *Small and Medium Practices (SMPs)* – The IESBA invites comments regarding the impact of the proposed changes for SMPs.
 - (b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.
 - (c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

PROPOSED RESTRUCTURED CODE (PHASE 1)

This ED sets out proposed revisions to the Code developed by the IESBA in the course of its Structure of the Code project. Comment boxes next to the paragraphs identify their source in the extant Code or indicate whether they are new material.

The December 2015 [ED, Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) sets out proposed revisions to the Code developed by the IESBA in the course of its Safeguards project. The Safeguards proposals are included in this ED for reference only, and are shaded in gray. Other paragraphs dealing with safeguards, which may be subject to revision as the Safeguards project continues, are shaded in gray and italicized.

Certain sections of the extant Code have been excluded from this ED. They will be addressed in the second phase of the Structure of the Code project.

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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* (the Code), 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.

Comment [IESBA1]: Preface

GUIDE TO THE CODE

Purpose of the Code

1. 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.
3. In the case of audits, reviews and other assurance engagements, the Code sets out international independence standards established by the application of the fundamental principle of objectivity to these engagements.

Comment [IESBA2]: 100.1, 100.2

Comment [IESBA4]: 100.6

Comment [IESBA5]: New paragraph

How the Code is Structured

4. The Code contains this Guide, the following three Parts and a Glossary:
 - Part A – *Introduction to the Code and Fundamental Principles*, which includes the fundamental principles and the conceptual framework, and is applicable to all professional accountants.
 - Part B – *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:
 - o Commerce, industry or service.
 - o The public sector.
 - o Education.
 - o The not-for-profit sector.
 - o Regulatory or professional bodies.Professional accountants in public practice might also find Part B relevant to their particular circumstances.
 - Part C – *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. It also includes the international independence standards:
 - o C1 – *Independence – Audit and Review Engagements*, applicable to professional accountants in public practice who perform audits and reviews.
 - o C2 – *Independence – Other Assurance Engagements*, applicable to professional accountants in public practice who provide assurance services other than audits and reviews.

Comment [IESBA6]: 100.2

Comment [IESBA7]: 100.3

Comment [IESBA8]: 100.3

Comment [IESBA9]: 100.3

Comment [IESBA10]: New paragraph

Comment [IESBA11]: New paragraph

Each part of the Code contains sections which introduce topics. Sections might have subsections dealing with specific aspects of the topic.

Comment [IESBA12]: New paragraph

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 C1 “audit” is used to refer to both audit and review engagements.

Comment [IESBA13]: New paragraph

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

Comment [IESBA14]: New paragraph

- Introduction – sets out the subject matter addressed within the Section, and introduces the requirements and application material in the context of the conceptual framework.
- Requirements – establish general and specific obligations with respect to the subject matter addressed, 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 to comply with the fundamental principles of professional ethics.

Comment [IESBA15]: New paragraph

Requirements

7. 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”.

Comment [IESBA16]: 100.4

Application Material

8. 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 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”.

Comment [IESBA17]: New paragraph

9. 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.

Comment [IESBA18]: New paragraph

Exceptional Circumstances

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.

Comment [IESBA19]: 100.11

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:

Comment [IESBA20]: 100.19 to .21

- Others within the firm or employing organization.

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- 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.

Comment [IESBA21]: 100.23,100.24.

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.

Comment [IESBA22]: 100.22

Additional Non-Authoritative Guidance

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

Comment [IESBA23]: New paragraph

Appendix

Comment [IESBA24]: New material

PARTS OF THE CODE

GUIDE TO THE CODE (ALL PROFESSIONAL ACCOUNTANTS)

PART A (ALL PROFESSIONAL ACCOUNTANTS)
INTRODUCTION TO THE CODE AND FUNDAMENTAL PRINCIPLES

PART B
PROFESSIONAL ACCOUNTANTS IN BUSINESS

PART C
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

INTERNATIONAL INDEPENDENCE STANDARDS
C1 – INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS
C2 – INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

GLOSSARY

The Conceptual Framework contained in Section 120 applies in all circumstances

PART A INTRODUCTION TO THE CODE AND FUNDAMENTAL PRINCIPLES

Section 100

Compliance 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's¹¹ responsibility is not exclusively to satisfy the needs of an individual client or employer. Therefore, the Code contains requirements and application material for accountants regarding matters that are integral to acting in the public interest.
- 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.
- 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.
- 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.
- R100.4** A professional accountant who identifies a breach of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:
- (a) Take whatever actions might be available, as soon as possible, to satisfactorily 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 902¹² address a breach of an independence requirement.

Comment [IESBA25]: 100.1

Comment [IESBA26]: New paragraph

Comment [IESBA27]: 100.1

Comment [IESBA28]: Preface

Comment [IESBA29]: 100.10

Comment [IESBA30]: 100.10

¹¹ In Part A, "professional accountant" includes "professional accountants in business" and "professional accountants in public practice," which also includes their firms.

¹² Subsection 902 is under development.

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 110

The Fundamental Principles

Introduction

- 110.1 There are five fundamental principles of ethics for professional accountants:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
 - (b) Objectivity – to make professional or business judgments 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.
- 110.2 Subsections 111 to 115 set out requirements and application material related to each of these fundamental principles.

Comment [IESBA31]: 100.5

Comment [IESBA32]: New paragraph

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.
- 111.1 A1 Integrity implies fair dealing and truthfulness.
- R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:
- (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.

Comment [IESBA33]: 110.1

Comment [IESBA34]: 110.1

Comment [IESBA35]: 110.2

Comment [IESBA36]: 110.2

The Conceptual Framework contained in Section 120 applies in all circumstances

111.3 A1 The professional accountant is not in breach of R111.3 if a modified report is provided in respect of the information described in R111.2.

Comment [IESBA37]: 110.3

Subsection 112 – Objectivity

R112.1 A professional accountant shall comply with the fundamental principle of objectivity which requires an accountant to make professional or business judgments without bias, conflict of interest or undue influence of others.

Comment [IESBA38]: 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.

Comment [IESBA39]: 120.2

112.2 A1 The existence of threats to 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.

Comment [IESBA40]: 120.2, 280.1, 280.3

112.2 A2 Examples of safeguards include:

Comment [IESBA41]: 280.4

- Supervisory procedures.
- Discussing the issue:
 - With higher levels of management within the firm; or
 - With those charged with governance of the client;
- Withdrawing from the 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.

Comment [IESBA42]: 280.2

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

Comment [IESBA43]: 280.2

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Comment [IESBA44]: 130.1

Comment [IESBA45]: 130.2

Comment [IESBA46]: 130.3

Comment [IESBA47]: 130.4

Comment [IESBA48]: 130.5

Comment [IESBA49]: 130.6

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:
- (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 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;

Comment [IESBA50]: 140.1

Comment [IESBA51]: 140.2

Comment [IESBA52]: 140.4

Comment [IESBA53]: 140.3

Comment [IESBA54]: 140.1(a)

Comment [IESBA55]: 140.1(b)

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(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

Comment [IESBA56]: 140.6

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

Comment [IESBA57]: 140.5

114.1 A1 The requirement to comply with the 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 may not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

Comment [IESBA58]: 140.6

114.1 A2 The following are circumstances where professional accountants might be required to disclose confidential information or when such disclosure might be appropriate:

Comment [IESBA59]: 140.7

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

- Production of documents or other provision of evidence in the course of legal proceedings; or
- 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;
- (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.

114.1 A3 In deciding whether to disclose confidential information in such circumstances, factors to consider include:

Comment [IESBA60]: 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.

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- 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.

Comment [IESBA61]: 150.1

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.

Comment [IESBA62]: 150.1

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:

Comment [IESBA63]: 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.

Comment [IESBA64]: 250.2

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 120

The Conceptual Framework

Introduction

- 120.1 The circumstances in which professional accountants operate might create specific threats to compliance with the fundamental principles. The conceptual framework assists the accountant in complying with the fundamental principles and meeting the responsibility to act in the public interest. It accommodates the many variations in facts and circumstances that create threats to compliance with the fundamental principles and deters an accountant from concluding that a situation is permitted if it is not specifically prohibited by this Code.
- 120.2 The conceptual framework specifies an approach for the professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

- R120.3** The professional accountant shall apply the conceptual framework which involves identifying, evaluating and addressing threats to compliance with the fundamental principles.
- R120.4** When applying the conceptual framework, the professional accountant shall exercise professional judgment, remain alert to changing circumstances, and take into account whether a reasonable and informed third party would likely conclude that the accountant has complied with the fundamental principles.

Reasonable and Informed Third Party

- 120.4 A1 The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant's judgments and conclusions. 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 evaluation is made to determine whether the accountant complies with the fundamental principles.

Identifying Threats

- R120.5** The professional accountant shall identify threats to compliance with the fundamental principles. An understanding of the facts and circumstances, including professional activities, interests and relationships, that might compromise compliance with the fundamental principles is a prerequisite to the accountant's identification of threats to such compliance.
- 120.5 A1 Threats might be created by a broad range of facts and circumstances. It is impossible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

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120.5 A2 Threats to compliance with the fundamental principles fall into one or more of the following categories:

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

120.5 A3 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

120.5 A4 Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can affect the likelihood of the professional accountant’s identification of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems.
- An explicitly stated duty to report breaches of ethical requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Evaluating Threats

R120.6 When the professional accountant identifies a threat, the accountant shall evaluate whether such a threat is at an acceptable level.

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

120.6 A2 The existence of qualitative as well as quantitative factors is relevant to the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.

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120.6 A3 The existence of conditions, policies and procedures discussed in paragraph 120.5 A4 above might impact the professional accountant's evaluation of threats to compliance with the fundamental principles.

Addressing Threats

R120.7 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level. The accountant shall do so 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 discontinuing the specific professional activity or service involved.

120.7 A1 There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. International Independence Standards C1 and C2 of the Code provide examples of such situations.

Safeguards

120.7 A2 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.

Re-evaluating Threats

R120.8 If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

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

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

120.8 A2 If the professional accountant identifies a new threat, the application of the conceptual framework requires that the accountant evaluate and address this new threat as set out in paragraphs R120.5–R120.8 above.

Overall Assessment

R120.9 The professional accountant shall review judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated or

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reduced to an acceptable level, and that no further action is needed. The reasonable and informed third party test described in paragraph 120.4 A1 is relevant to this assessment.

The Conceptual Framework contained in Section 120 applies in all circumstances

PART C PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Section 300

Application of the Conceptual Framework for Professional Accountants in Public Practice

Introduction

300.1 This Part of the Code describes considerations for professional accountants in public practice¹³ in the application of the conceptual framework set out in Section 120. This Part does not describe all of the facts and circumstances, including professional services, interests and relationships, that could be encountered by accountants that create or might create threats to compliance with the fundamental principles. Therefore, accountants are encouraged to be alert for such facts and circumstances.

Comment [IESBA65]: 200.1

Requirements and Application Material

R300.2 A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework set out in Section 120 to eliminate threats to compliance with those fundamental principles or to reduce them to an acceptable level.

Identifying Threats

300.2 A1 Compliance with the fundamental principles might be threatened by a broad range of facts and circumstances. The following are categories of threats, and examples of facts and circumstances that might create those threats for a professional accountant when undertaking a professional activity or providing a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A firm having undue dependence on total fees from a client or the possibility of losing a significant client.
- A professional accountant having a significant close business relationship with a client.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- A professional accountant being, or having recently been, a director or officer of the client, or having recently been employed by the client in a position to exert significant influence over the subject matter of the engagement.

¹³ The term "professional accountant" refers to professional accountants in public practice and their firms.

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(c) Advocacy Threats

- The professional accountant promoting shares in a client.
- A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties.

(d) Familiarity Threats

- A member of the engagement team having a close or immediate family member who is a director or officer of the client, or is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- Senior personnel having a long association with the assurance client.

(e) Intimidation Threats

- A firm being threatened with dismissal from a client engagement.
- A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment.

The categories of threats are also discussed in Section 120.

Evaluating Threats

300.2 A2 Conditions that might impact the evaluation of whether a threat is at an acceptable level include the nature of:

- (a) The client and its operating environment;
- (b) The professional service being provided; and
- (c) The firm and its operating environment.

The Client and its Operating Environment

300.2 A3 The level of a threat might be impacted by the following types of client or professional service that is provided:

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

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For example, providing a service to an audit client might be perceived to result in a higher level of threat to the fundamental principle of objectivity. Such a threat might be further increased when the audit client is a public interest entity with a large number and wide range of stakeholders.

300.2 A4 A professional accountant's evaluation of the level of the threat might also be impacted by a client's operating environment. For example:

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

The Professional Service Being Provided

300.2 A5 The level of a threat is impacted by the nature and scope of the professional service. Examples of professional services, the threats that might arise as a result, and how a professional accountant may address those threats are discussed in International Independence Standards C1 and C2.

The Firm and its Operating Environment

300.2 A6 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within a firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest.
- Methods and processes for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority for compliance with the fundamental principles, including decisions about the permissibility of services to an audit client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external complaints.

The Conceptual Framework contained in Section 120 applies in all circumstances

Addressing Threats

300.2 A7 If the professional accountant determines that the identified threats to compliance are not at an acceptable level, Section 120 requires that the accountant address those 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 discontinuing the specific professional activity or service involved.

300.2 A8 There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level, and the threats may not be addressed by applying the requirements in Section 120. International Independence Standards C1 and C2 provide examples of such situations.

Examples of Safeguards

300.2 A9 Safeguards vary depending on the facts and circumstances. The following are examples of actions that in certain circumstances might be safeguards in addressing threats:

- Having a professional accountant who was not involved with the non-assurance service provided to an audit client review the non-assurance work performed, or otherwise advise as necessary might address a self-review threat.
- Having a professional accountant who was not a member of the team review the work performed or otherwise advise as necessary might address self-review threats.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review and familiarity threats.
- Consulting those charged with governance or an independent third party, including a committee of independent directors, a professional regulatory body or another professional accountant might address advocacy or intimidation threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy or familiarity threats.
- Rotating assurance team personnel might address self-interest and familiarity threats.

Re-evaluating Threats

300.2 A10 New information or changes in facts and circumstances might:

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

300.2 A11 Examples of new information or changes in facts and circumstances include:

- When the scope of a professional service is expanded.

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- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- Where the engagement partner's immediate family member is recently employed by the client.

In those situations described above, actions already implemented as safeguards might no longer be effective in eliminating those threats or reducing them to an acceptable level.

Overall Assessment

300.2 A12 When applying the conceptual framework, Section 120 requires that the professional accountant reviews judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated, or reduced to an acceptable level and that no further action is needed. The reasonable and informed third party test described in Section 120 is relevant to this assessment.

Those Charged with Governance

R300.3 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.

Comment [IESBA66]: 100.25

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

Comment [IESBA67]: 100.25

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

300.3 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.

Comment [IESBA68]: 100.25

The Conceptual Framework contained in Section 120 applies in all circumstances

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.

Comment [IESBA69]: New paragraph

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

Comment [IESBA70]: 220.1

310.3 Such threats might be created when:

Comment [IESBA71]: 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
- (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.

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

Comment [IESBA72]: 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.
 - Buying a product or service while having a royalty or commission agreement with

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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.

Comment [IESBA73]: 220.1

Requirements and Application Material

R310.6 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.

Comment [IESBA74]: 220.1

Conflict Identification

R310.7 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, including identifying:

Comment [IESBA75]: 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.

310.7 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. A conflict identification process assists an accountant 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. 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 the threat.

Comment [IESBA76]: 220.7

The process to identify actual or potential conflicts of interest will 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.

310.7 A2 More information on client acceptance is set out in Section 320, *Professional Appointment*.

Comment [IESBA77]: New paragraph

R310.8 A professional accountant shall remain alert to changes in the circumstances that might create a conflict of interest during an engagement.

Comment [IESBA78]: 220.6

310.8 A1 The nature of the services and the interests and relationships might change during the engagement. This is often true in a situation that might become adversarial, although there is no dispute when the engagement begins.

Comment [IESBA79]: 220.6

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Network Firms

R310.9 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.

Comment [IESBA80]: 220.8

310.9 A1 Reasonable steps to identify interests and relationships involving a network firm will depend on factors such as:

Comment [IESBA81]: 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

310.10 A1 In applying the conceptual framework when evaluating a threat created by a conflict of interest, factors to consider include the significance of:

Comment [IESBA82]: 220.3, 220.9

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

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

Comment [IESBA83]: 220.9

310.10 A3 Examples of safeguards include:

Comment [IESBA84]: 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 judgments and conclusions are appropriate.*
- *Consulting third parties, such as a professional body, legal counsel or another*

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professional accountant.

Disclosure and Consent

R310.11 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. **Comment [IESBA85]: 220.11**

310.11 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: the parties that might be affected; the nature of the issues that might arise; and the potential for the particular matter to develop in an unexpected manner. **Comment [IESBA86]: 220.11**

310.11 A2 It is generally necessary:

- (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. **Comment [IESBA87]: 220.11**

310.11 A3 Disclosure and consent might take different forms, for example:

- 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. **Comment [IESBA88]: 220.11**

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

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to reduce the threats to an acceptable level; and
- (c) The consent obtained. **Comment [IESBA89]: 220.13**

The Conceptual Framework contained in Section 120 applies in all circumstances

R310.12 If a professional accountant has determined that explicit consent is necessary in accordance with paragraph R310.11 and the client has refused, the accountant shall either:

Comment [IESBA90]: 220.12

- (a) 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

R310.13 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.

Comment [IESBA91]: 220.4

R310.14 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, the firm shall only accept or continue an engagement if:

Comment [IESBA92]: 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.

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

Comment [IESBA93]: 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.

R310.15 In the circumstances set out in R310.14, the professional accountant shall document:

Comment [IESBA94]: 220.14

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

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 320

Professional Appointment

Introduction

320.1 Section 320 sets out requirements and application material on applying the conceptual framework to changes in professional appointments, including new appointments and new or recurring engagements for existing clients.

Comment [IESBA95]: New paragraph

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

Comment [IESBA96]: 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.

Comment [IESBA97]: 210.1

Client Acceptance and Continuance

320.3 A1 In some circumstances, acceptance of a new client relationship might create threats to integrity or professional behavior. This might arise, for example, where the client, its owners or management are involved in illegal activities, dishonesty or questionable financial reporting practices.

Comment [IESBA98]: 210.1, 210.2

320.3 A2 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.

Comment [IESBA99]: 210.3

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

Comment [IESBA100]: 210.5

Engagement Acceptance

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

Comment [IESBA101]: 210.6

320.3 A5 Examples of safeguards include:

- 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.

Comment [IESBA102]: 210.7

The Conceptual Framework contained in Section 120 applies in all circumstances

- *Possessing or obtaining experience with relevant regulatory or reporting requirements.*
- *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 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.

Comment [IESBA103]: 210.9

Comment [IESBA104]: 210.9

Comment [IESBA105]: 210.12

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 professional competence and due care if a professional accountant accepts the engagement before knowing all the relevant facts.

Comment [IESBA106]: 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 professional competence and due care might result, for example, from incomplete information.

Comment [IESBA107]: 210.12

320.4 A3 *Examples of safeguards include:*

Comment [IESBA108]: 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 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 senior management or those charged with governance of the client.*

Comment [IESBA109]: 210.11

320.4 A4 Depending on the nature of the engagement, direct communication with the existing accountant might be needed to establish the circumstances 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

Comment [IESBA110]: 210.10

The Conceptual Framework contained in Section 120 applies in all circumstances

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 appointment.

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

Comment [IESBA111]: 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.

Comment [IESBA112]: 210.14

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

Comment [IESBA113]: 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 accountant is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and:

Comment [IESBA114]: 210.13

- (a) Whether the 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 might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A2 of the Code.

Comment [IESBA115]: 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.

Comment [IESBA116]: 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.

Comment [IESBA117]: 210.8

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 321

Second Opinions

Introduction

321.1 Section 321 sets out requirements and application material on applying the conceptual framework to providing a second opinion.

Comment [IESBA118]: New paragraph

321.2 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.

Comment [IESBA119]: 230.1

321.3 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 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.

Comment [IESBA120]: 230.1

Requirements and Application Material

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

Comment [IESBA121]: 230.2

R321.5 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 whether, taking all the circumstances into account, the accountant may provide the second opinion sought and remain in compliance with the fundamental principles.

Comment [IESBA122]: 230.3

321.5 A1 The existence and significance of any threat created by providing a second opinion depends on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

321.5 A2 Examples of safeguards include:

Comment [IESBA123]: 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.

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 330

Fees and Other Types of Remuneration

Introduction

330.1 Section 330 sets out requirements and application material on applying the conceptual framework to fees and other types of remuneration.

Comment [IESBA124]: New paragraph

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

Comment [IESBA125]: 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.

Comment [IESBA126]: 240.1, 240.2

Level of Fees

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

Comment [IESBA127]: 240.1, 240.2

330.3 A2 A professional accountant may quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, fee quotations create a threat to 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.

Comment [IESBA128]: 240.01

330.3 A3 *Examples of safeguards include:*

- *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.*
- *Assigning appropriate time and qualified personnel to the task.*

Comment [IESBA129]: 240.2

Contingent Fees

330.3 A4 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 objectivity, in certain circumstances. The existence and significance of such threats will depend on factors including:

Comment [IESBA130]: 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 A5 *Examples of safeguards include:*

- *An advance written agreement with the client on the basis of remuneration.*

Comment [IESBA131]: 240.4

The Conceptual Framework contained in Section 120 applies in all circumstances

- *Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.*
- *Quality control policies and procedures.*
- *Review by an independent third party of the work performed by the accountant.*

330.3 A6 **Contingent fees** for services provided to audit clients and other assurance clients are set out in C1 and C2 of the Code.

Comment [IESBA132]: New paragraph

Referral Fees or Commissions

330.3 A7 **A self-interest** threat to 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:

Comment [IESBA133]: 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.

330.3 A8 **A self-interest** threat to 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.

Comment [IESBA134]: 240.6

330.3 A9 **Examples of safeguards** include:

Comment [IESBA135]: 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.*
- *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.*

330.3 A10 **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 330.3 A7 and 330.3 A8.

Comment [IESBA136]: 240.8

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 340

Gifts and Hospitality

Introduction

340.1 Section 340 sets out requirements and application material on applying the conceptual framework to offers of gifts and hospitality.

Comment [IESBA137]: New paragraph

340.2 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 objectivity if the offer is accepted, or an intimidation threat to objectivity if the acceptance of the offer might be made public.

Comment [IESBA138]: 260.1

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.

Comment [IESBA139]: 260.3

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.

Comment [IESBA140]: 260.2

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 350

Custody of Client Assets

Introduction

350.1 Section 350 sets out requirements and application material on applying the conceptual framework to assuming custody of client money or other assets.

Comment [IESBA141]: 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.

Comment [IESBA142]: 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.

Comment [IESBA143]: 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.

Comment [IESBA144]: 270.2

R350.4 A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law.

Comment [IESBA145]: 270.1

R350.5 As part of client and engagement acceptance procedures related to assuming custody of client money or assets, the professional accountant shall:

Comment [IESBA146]: 270.3

(a) Make inquiries about the source of the assets; and

(b) Consider related legal and regulatory obligations.

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

Comment [IESBA147]: 270.3

R350.6 A professional accountant entrusted with money or other assets belonging to others shall:

Comment [IESBA148]: 270.2

(a) Keep the assets separately from personal or firm assets;

(b) Use the assets only for the purpose for which they are intended;

(c) 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

C1 – INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

Section 400

Application of 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.¹⁴ 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 members of audit teams,¹⁵ firms and network firms be independent of audit clients.¹⁶ C1 sets out requirements and application material on maintaining independence when performing audit engagements. (See also paragraph 400.7 regarding references to “firm.”)

Comment [IESBA149]: 290.1

Comment [IESBA150]: 290.4

Comment [IESBA151]: 290.1

400.2 Independence comprises:

Comment [IESBA152]: 290.6

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

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, 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.

400.3 C1 describes facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence. It describes the potential threats, and safeguards that might be appropriate to address any threats by eliminating them or reducing them to an acceptable level. It identifies situations where no safeguards could reduce the threats to an acceptable level but does not describe all situations that might create a threat.

Comment [IESBA153]: 290.5, 290.8, 290.9, 290.100

400.4 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.

Comment [IESBA154]: 290.8, 290.9, 290.100

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

Comment [IESBA155]: 290.1 last sentence

¹⁴ In C1, “audit engagement” includes “review engagement.”

¹⁵ In C1, “audit team” includes “review team.”

¹⁶ In C1, “audit client” includes “review client” and related entities of the audit client – see Glossary for more detail.

The Conceptual Framework contained in Section 120 applies in all circumstances

Public Interest Entities

400.6 C1 sets out requirements and application material 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:

- 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.

Comment [IESBA156]: 290.25, 290.26

Responsibility

400.7 Firms are required by International Standards on Quality Control (ISQCs) to establish policies and procedures designed to provide them with reasonable assurance that independence is maintained when required by relevant ethical requirements. International Standards on Auditing (ISAs) establish responsibilities for engagement partners and engagement teams. Certain responsibilities within a firm depend on its size, structure and organization. Many of the provisions of C1 do not prescribe the specific responsibility of individuals within the firm for actions related to independence. 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.

Comment [IESBA157]: 290.12

Reports that Include a Restriction on Use and Distribution

400.8 An audit report¹⁷ might include a restriction on use and distribution. If it does, the independence requirements in C1 may be modified as provided in Section 800,¹⁸ if the conditions set out in those paragraphs are met. These modifications are not permitted for an audit of financial statements which is required by law or regulation.

Comment [IESBA158]: 290.2

Requirements and Application Material

R400.9 A firm performing an audit engagement shall be independent of the audit client and shall apply the conceptual framework set out in Section 120 when identifying, evaluating and addressing threats to independence in relation to an audit engagement.

Comment [IESBA159]: 280.2

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;

Comment [IESBA160]: 290.11

¹⁷ In C1, "audit report" includes "review report."

¹⁸ Section 800 is under development.

The Conceptual Framework contained in Section 120 applies in all circumstances

(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;*

Comment [IESBA161]: 290.10

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

Comment [IESBA162]: 290.10

(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*

(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.*

Comment [IESBA163]: 290.10

R400.11 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 C1 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 threats to independence and applying appropriate safeguards.

Comment [IESBA164]: 290.27

Engagement Period

R400.12 Independence as required by C1 shall be maintained during both:

Comment [IESBA165]: 290.30

(a) The engagement period; and

(b) The period covered by the financial statements.

R400.13 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:

Comment [IESBA166]: 290.31

(a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or

(b) Previous services provided to the audit client by the firm or network firm.

R400.14 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 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 threats or reduce them to an acceptable level.

Comment [IESBA167]: 290.32

The Conceptual Framework contained in Section 120 applies in all circumstances

400.14 A1 *Examples of safeguards include:*

Comment [IESBA168]: 290.32

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

Communication with those Charged with Governance

R400.15 A firm shall comply with paragraph R300.3 when communicating with those charged with governance.

Comment [IESBA169]: New paragraph

400.15 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:

Comment [IESBA170]: 290.28

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

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

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.

Comment [IESBA171]: 290.14

Requirements and Application Material

R401.2 A network firm shall be independent of the audit clients of the other firms within the network where C1 specifically requires such independence.

Comment [IESBA172]: 290.13

The Conceptual Framework contained in Section 120 applies in all circumstances

- R401.3** When associated with a larger structure of other firms and entities, a firm shall:
- (a) Use professional judgment to determine whether a network is created by such a larger structure;
 - (b) Consider whether a reasonable and informed third party would be likely to conclude 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. **Comment [IESBA173]: 290.15**
- 401.3 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. **Comment [IESBA174]: 290.13**
- 401.3 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. **Comment [IESBA175]: 290.16**
- 401.3 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. **Comment [IESBA176]: 290.17**
- 401.3 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. **Comment [IESBA177]: 290.18**
- 401.3 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. **Comment [IESBA178]: 290.19**
- 401.3 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. **Comment [IESBA179]: 290.20**
- Comment [IESBA180]: 290.21**

The Conceptual Framework contained in Section 120 applies in all circumstances

401.3 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:

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

Comment [IESBA181]: 290.23

401.3 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- 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.

Comment [IESBA182]: 290.24

R401.4 If a firm or a network sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the sold component might 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.

Comment [IESBA183]: 290.22

Subsection 402 – General Documentation of Independence for Audit and Review Engagements

Introduction

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

Comment [IESBA184]: New paragraph

Requirements and Application Material

R402.2 A firm shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

Comment [IESBA185]: 290.29

The Conceptual Framework contained in Section 120 applies in all circumstances

- (a) When safeguards are required to 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 and 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.

402.2 A1 A lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent as required by C1.

Comment [IESBA186]: 290.29

Subsection 403 – Mergers and Acquisitions

Introduction

403.1 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.

Comment [IESBA187]: 290.33

403.2 It might not be reasonable to end an interest or relationship 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.

Comment [IESBA188]: 290.34

Requirements and Application Material

R403.3 (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.

Comment [IESBA189]: 290.33

(b) In the circumstances set out in paragraph 403.1, 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.

Comment [IESBA190]: 290.34

(c) As an exception to R403.3(b), if the interest or relationship cannot reasonably be ended by the effective date, the firm shall:

Comment [IESBA191]: 290.34

- (i) Evaluate the threat that is created by the interest or relationship; and
- (ii) 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 of the threat.

403.3 A1 The 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 such as:

Comment [IESBA192]: 290.34

- The nature and significance of the interest or relationship.

The Conceptual Framework contained in Section 120 applies in all circumstances

- 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.

R403.4 If those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

Comment [IESBA193]: 290.35

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by C1, 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.

403.4 A1 Examples of transitional measures include:

Comment [IESBA194]: 290.35(c)

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

R403.5 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 403.1, the firm shall only do so if it:

Comment [IESBA195]: 290.36

- (a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance;
- (b) Complies with the requirements of paragraph R403.4(a) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

R403.6 When addressing previous and current interests and relationships set out in paragraph 403.1, the firm shall determine whether, even if all the requirements of paragraphs R403.3 to R403.5 could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised. If so, the firm shall cease to be the auditor.

Comment [IESBA196]: 290.37

The Conceptual Framework contained in Section 120 applies in all circumstances

R403.7 The firm shall document:

Comment [IESBA197]: 290.38

- (a) Any interests or relationships set out in paragraph 403.1 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 that objectivity would be compromised.

Subsection 404 – Breach of an 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.

Comment [IESBA198]: 290.39

Requirements and Application Material

When a Firm Identifies a Breach

R404.2 If a firm concludes that a breach of 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 if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner;
 - (ii) Those with responsibility for the policies and procedures relating to independence;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements 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
- (e) Depending on the significance of the breach, determine whether:
 - (i) To end the audit engagement; or

Comment [IESBA199]: 290.40

Comment [IESBA200]: 290.41

Comment [IESBA201]: 290.42

Comment [IESBA202]: 290.42

Comment [IESBA203]: 290.43

The Conceptual Framework contained in Section 120 applies in all circumstances

- (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.

Comment [IESBA204]: 290.43

404.2 A1 When a breach of the 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:

Comment [IESBA205]: 290.42

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

404.2 A2 Depending upon the significance of the breach, examples of actions that the firm might consider to satisfactorily address the breach include:

Comment [IESBA206]: 290.44

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

R404.3 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

Comment [IESBA207]: 290.45

The Conceptual Framework contained in Section 120 applies in all circumstances

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.

R404.4 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:

Comment [IESBA208]: 290.46

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

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

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

R404.5 The firm shall communicate in writing to those charged with governance:

Comment [IESBA209]: 290.47

- (a) All matters discussed in accordance with paragraphs R404.2 to R404.4 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.

R404.6 If those charged with governance do not concur that the action proposed by the firm in accordance with R404.2(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 R404.3.

Comment [IESBA210]: 290.47

Breaches Before the Previous Audit Report Was Issued

R404.7 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of 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.

Comment [IESBA211]: 290.48

R404.8 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.

Comment [IESBA212]: 290.48

The Conceptual Framework contained in Section 120 applies in all circumstances

Documentation – Breaches of an Independence Provision

R404.9 In applying the provisions of R404.1 to R404.8, the firm shall document:

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

R404.10 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.

Comment [IESBA213]: 290.49

Comment [IESBA214]: 290.49

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 410

Fees

Introduction

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

- 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.
- Fees from an audit client that remain unpaid for a long time.
- Charging contingent fees to an audit client.

Section 410 sets out requirements and application material on applying the conceptual framework to fees or other remuneration.

Comment [IESBA215]: New paragraph

Comment [IESBA216]: 290.217, 290.218

Comment [IESBA217]: 290.220

Comment [IESBA218]: 290.221

Requirements and Application Material

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

Comment [IESBA219]: 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 such as:

- 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.

Comment [IESBA220]: 290.217

410.3 A2 Examples of safeguards include:

- 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.

Comment [IESBA221]: 290.217

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.

Comment [IESBA222]: 290.218

The significance of the threat will depend upon factors such 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.

The Conceptual Framework contained in Section 120 applies in all circumstances

410.3 A4 *Examples of safeguards include:*

- *Reducing dependence on the audit client.*
- *Having a professional accountant review the work or advise as necessary.*
- *Regular independent internal or external quality reviews of the engagement.*

Comment [IESBA223]: 290.218

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 R400.11) 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:

Comment [IESBA224]: 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:

Comment [IESBA225]: 290.219

- (a) Determine whether the 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:

Comment [IESBA226]: 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:

Comment [IESBA227]: 290.220

The Conceptual Framework contained in Section 120 applies in all circumstances

- (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.

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 provisions of Section 511 with respect to loans and guarantees might also be relevant to situations where such unpaid fees exist.

Comment [IESBA228]: 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.

Comment [IESBA229]: 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.

Comment [IESBA230]: 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:

Comment [IESBA231]: 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. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

Comment [IESBA232]: 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, threats might still be created. The existence and significance of any threats will depend on factors such as:

Comment [IESBA233]: 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.

The Conceptual Framework contained in Section 120 applies in all circumstances

410.9 A3 *Examples of safeguards include:*

- *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.*

Comment [IESBA234]: 290.224

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 411

Compensation and Evaluation Policies

Introduction

411.1 Evaluating or compensating an audit team member for selling non-assurance services to that audit client might create a self-interest threat. Section 411 sets out requirements and application material on applying the conceptual framework to compensation and evaluation policies.

Comment [IESBA235]: 290.225

Requirements and Application Material

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

Comment [IESBA236]: 290.225

411.2 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 threat will depend on:

Comment [IESBA237]: 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.

411.2 A2 Examples of safeguards include:

Comment [IESBA238]: 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.*

R411.3 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.

Comment [IESBA239]: 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. Section 420 sets out requirements on applying the conceptual framework to evaluating gifts and hospitality.

Comment [IESBA240]: 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.

Comment [IESBA241]: New paragraph

R420.3 A firm or an audit team member shall not accept gifts or hospitality from an audit client, unless the value is trivial and inconsequential.

Comment [IESBA242]: 290.227

The Conceptual Framework contained in Section 120 applies in all circumstances

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. Section 430 sets out requirements and application material on applying the conceptual framework to such actual or threatened litigation.

Comment [IESBA243]: 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:

Comment [IESBA244]: New paragraph.

- (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 and intimidation threats. The significance of the threats created by actual or threatened litigation might depend on factors such as:

Comment [IESBA245]: 290.228

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

430.2 A2 Examples of safeguards include:

Comment [IESBA246]: 290.228

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

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 510

Financial Interests

Introduction

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:

- (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.

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.

Comment [IESBA247]: 290.102

Comment [IESBA248]: 290.103

Comment [IESBA249]: 290.101

Requirements and Application Material

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

Comment [IESBA250]: New paragraph

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

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 their immediate family.

Comment [IESBA251]: 290.104

Comment [IESBA252]: 290.104

Comment [IESBA253]: 290.108

Comment [IESBA254]: 290.110

510.5 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

Comment [IESBA255]: 290.109

The Conceptual Framework contained in Section 120 applies in all circumstances

judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.6 As an exception to paragraph R510.5, an immediate family member identified in subparagraphs 510.5(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

Comment [IESBA256]: 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.

R510.7 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 that individual's immediate family member shall hold a direct or material indirect financial interest in that entity.

Comment [IESBA257]: 290.106

Financial Interests Held as Trustee

R510.8 Paragraph R510.5 also applies to a financial interest in an audit client held as trustee as it does to other financial interests, unless:

Comment [IESBA258]: 290.114

- (a) None of the following is a beneficiary of the trust: the trustee, 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, that individual's immediate family member, the firm or a network firm.

Financial Interests in Common with the Audit Client

R510.9 (a) A firm, or a network firm, or an audit team member, or 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:

Comment [IESBA259]: 290.112

- (i) The financial interests are immaterial to the firm, the network firm, the audit team member, 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 can become an audit team member, the individual or that individual's immediate family member shall either:
- (i) Dispose of the interest; or

Comment [IESBA260]: 290.112

The Conceptual Framework contained in Section 120 applies in all circumstances

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

Unintended Acquisition of Interests

R510.10 If a firm, a network firm or a partner or employee of the firm or a network firm, or 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:

Comment [IESBA261]: 290.116

- (a) If the interest is received by the firm or a network firm, or an audit team member or a member 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 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

R510.11 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. 510.11 A1).
- (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 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. 510.11 A3).
- (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, in addition to those who are specifically not permitted to hold such financial interests by paragraph R510.5, or their immediate family members; or
 - (ii) Individuals with a close personal relationship with an audit team member. (Ref: Para. 510.11 A5).

Comment [IESBA262]: 290.105

Comment [IESBA263]: 290.107

Comment [IESBA264]: 290.113

Comment [IESBA265]: 290.115

The Conceptual Framework contained in Section 120 applies in all circumstances

510.11 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 such as:

- 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.

Comment [IESBA266]: 290.105

510.11 A2 *Examples of safeguards include:*

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

Comment [IESBA267]: 290.105

510.11 A3 Self-interest, familiarity, or intimidation threats might be created if an audit team member, or 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 such as:

- 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.

Comment [IESBA268]: 290.113

510.11 A4 *Examples of safeguards include:*

- *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.*

Comment [IESBA269]: 290.113

510.11 A5 Whether the interests set out in paragraph R510.11(d) create a self-interest threat depends on factors such as:

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

Comment [IESBA270]: 290.115

510.11 A6 *Examples of safeguards include:*

- *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.*

Comment [IESBA271]: 290.115

The Conceptual Framework contained in Section 120 applies in all circumstances

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 that individual's immediate family member might create self-interest or other threats. Section 511 sets out requirements and application material on 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.

Comment [IESBA272]: New paragraph

Comment [IESBA273]: 290.101

Requirements and Application Material

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

Comment [IESBA274]: New paragraph

Loans and Guarantees with a Bank or Similar Institution

- R511.4 A firm, a network firm, an audit team member, or 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.
- 511.4 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 the self-interest threat to an acceptable level.
- 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.
- 511.4 A3 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 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.

Comment [IESBA275]: 290.117

Comment [IESBA276]: 290.118

Comment [IESBA277]: 290.118

Comment [IESBA278]: 290.119

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

Comment [IESBA279]: 290.120

The Conceptual Framework contained in Section 120 applies in all circumstances

R511.6 A firm, a network firm, an audit team member, or 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:

- (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.

Comment [IESBA280]: 290.121

Comment [IESBA281]: 290.122

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 520

Business Relationships

Introduction

520.1 A close business relationship between an audit client and a firm, a network firm, an audit team member, or that individual's immediate family member might create self-interest or intimidation threats. Section 520 sets out requirements and application material on applying the conceptual framework to these business relationships.

Comment [IESBA282]: 290.123

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.

Comment [IESBA283]: 290.101

Requirements and Application Material

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

Comment [IESBA284]: New paragraph

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 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.

Comment [IESBA285]: 290.123

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

Comment [IESBA286]: 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.

Common Interests in Closely-Held Entities

R520.5 The firm, a network firm, an audit team member, or 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:

Comment [IESBA287]: 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;

The Conceptual Framework contained in Section 120 applies in all circumstances

- (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 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.

Comment [IESBA288]: 290.125

520.6 A2 Examples of safeguards include:

Comment [IESBA289]: 290.125

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

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 521

Family and Personal Relationships

Introduction

521.1 A family or personal relationship between 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. Section 521 sets out requirements and application material on applying the conceptual framework to these family or personal relationships.

Comment [IESBA290]: 290.126

Requirements and Application Material

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

Comment [IESBA291]: New paragraph

521.2 A1 The existence and significance of any threats created by family and personal relationships will depend on a number of factors, including the individual's responsibilities on the audit team, the role of the family member or other individual within the client and the closeness of the relationship.

Comment [IESBA292]: 290.126

Immediate Family of Audit Team Member

R521.3 An individual shall not participate as an audit team member when that individual's immediate family member:

Comment [IESBA293]: 290.127

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

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.

Comment [IESBA294]: 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.

521.3 A2 Examples of safeguards include:

Comment [IESBA295]: 290.128

- Removing the individual 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 immediate family member.

The Conceptual Framework contained in Section 120 applies in all circumstances

Close Family of Audit Team Member

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

Comment [IESBA296]: 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 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.

521.4 A2 Examples of safeguards include:

Comment [IESBA297]: 290.129

- Removing the individual 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 close family member.

Other Close Relationships of Audit Team Member

R521.5 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:

Comment [IESBA298]: 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.

521.5 A1 The significance of the threats created by a relationship set out in paragraph R521.5 will depend on factors such as:

Comment [IESBA299]: 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.

521.5 A2 Examples of safeguards include:

Comment [IESBA300]: 290.130

- Removing the professional from the audit team.

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- *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.*

R521.6 Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

Comment [IESBA301]: 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.

521.6 A1 The existence and significance of any threat will depend on factors such as:

Comment [IESBA302]: 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.

521.6 A2 Examples of safeguards include:

Comment [IESBA303]: 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. Section 522 sets out requirements and application material on applying the conceptual framework in circumstances where audit team members have served with an audit client.

Comment [IESBA304]: 290.141

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.

Comment [IESBA305]: New paragraph

R522.3 The audit team shall not include an individual who, during the period covered by the audit report:

Comment [IESBA306]: 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.

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

Comment [IESBA307]: 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.

522.3 A2 The existence and significance of any threats will depend on factors such as:

Comment [IESBA308]: 290.143

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

522.3 A3 An example of a safeguard is conducting a review of the work performed by the individual as an audit team member.

Comment [IESBA309]: 290.143

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 523

Serving as a Director or Officer of an Audit Client¹⁹

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. Section 523 sets out requirements on applying the conceptual framework in these circumstances.

Comment [IESBA310]: 290.144

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).

Comment [IESBA311]: 290.145

Requirements

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.

Comment [IESBA312]: 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:

Comment [IESBA313]: 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.

¹⁹

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

Section 524

Employment with an Audit Client

Introduction

524.1 An employment relationship between a former partner or employee of a 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:

Comment [IESBA314]: 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.

Section 524 sets out requirements and application material on 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.

Comment [IESBA315]: New paragraph

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

Comment [IESBA316]: 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.

524.3 A1 A significant connection remains between the firm and the individual, unless:

Comment [IESBA317]: 290.133

- (a) The individual is not entitled to any benefits or payments from the 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; and
- (c) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

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

Comment [IESBA318]: 290.134

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

The Conceptual Framework contained in Section 120 applies in all circumstances

- The length of time since the individual was an audit team member or partner of the firm.
- The former position of the individual within the audit team or 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 A3 *Examples of safeguards include:*

- *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.*

Comment [IESBA319]: 290.134

524.3 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 has joined the entity as:

Comment [IESBA320]: 290.135

- 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.

R524.4 A firm shall:

Comment [IESBA321]: 290.136

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

524.4 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.

Comment [IESBA322]: 290.136

524.4 A2 *Examples of safeguards include:*

Comment [IESBA323]: 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

R524.5 If an individual who was a key audit partner joins an audit client of the firm that is a public interest entity as:

Comment [IESBA324]: 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,

The Conceptual Framework contained in Section 120 applies in all circumstances

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

R524.6 If an individual who was the Chief Executive, or equivalent, of the firm joins an audit client that is a public interest entity 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,

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm.

Comment [IESBA325]: 290.138

Business Combinations

524.7 A1 Independence is not compromised if the circumstances set out in paragraphs R524.5 and R524.6 arise as a result of a business combination and:

- (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 have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;
- (c) The former partner does not continue to participate or appear to participate in the 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.

Comment [IESBA326]: 290.139

The Conceptual Framework contained in Section 120 applies in all circumstances

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 threat. Section 525 sets out requirements and application material on applying the conceptual framework to loans of firm personnel to an audit client.

Comment [IESBA327]: 290.140

Requirements and Application Material

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

Comment [IESBA328]: New paragraph

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

Comment [IESBA329]: 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.

R525.3 A firm or network firm shall not loan personnel to an audit client unless:

Comment [IESBA330]: 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 C1; 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

GLOSSARY²⁰

In the *International Code of Ethics Standards for Professional Accountants*, 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.

Acceptable level ²¹	A level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles. <i>This term is described in Section 120.6 A1</i>
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: <ul style="list-style-type: none"> (a) In a direct reporting engagement, is responsible for the subject matter; or (b) In an assertion-based engagement, is responsible for the subject matter information and may 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. <i>(For guidance on assurance engagements, see the <i>International Framework for Assurance Engagements</i> issued by the International Auditing and Assurance Standards Board. The <i>International Framework for Assurance Engagements</i> describes the elements and objectives of an assurance engagement and identifies engagements to which <i>International Standards on Auditing</i> (ISAs), <i>International Standards on Review Engagements</i> (ISREs) and <i>International Standards on Assurance Engagements</i> (ISAEs) apply.)</i>
Assurance team	<ul style="list-style-type: none"> (a) All members of the engagement team for the assurance engagement; (b) All others within a firm who can directly influence the outcome of the assurance engagement, including: <ul style="list-style-type: none"> (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;

²⁰ 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.

²¹ This definition has been shaded in gray as it is included in the Safeguards ED.

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- (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 C1, the term "audit" includes "review engagement."

Comment [IESBA331]: 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 R400.11.)

In C1, "audit client" includes "review client."

Comment [IESBA332]: 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 C1, "audit engagement" includes "review engagement."

Comment [IESBA333]: 290.3

Audit report

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

Comment [IESBA334]: 290.3

Audit team

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

The Conceptual Framework contained in Section 120 applies in all circumstances

In C1, "audit team" includes "review team."

Comment [IESBA335]: 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 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	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 terminated or the issuance of the final audit report.
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

Comment [IESBA336]: 290.30

The Conceptual Framework contained in Section 120 applies in all circumstances
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client.

External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.										
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.										
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.										
Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.										
Firm	<ul style="list-style-type: none"> (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. 										
Fundamental Principles	<p><i>These terms are described in paragraphs:</i></p> <table> <tr> <td><i>Integrity</i></td> <td><i>R111.1</i></td> </tr> <tr> <td><i>Objectivity</i></td> <td><i>R112.1</i></td> </tr> <tr> <td><i>Professional competence and due care</i></td> <td><i>R113.1</i></td> </tr> <tr> <td><i>Confidentiality</i></td> <td><i>R114.1</i></td> </tr> <tr> <td><i>Professional behavior</i></td> <td><i>R115.2</i></td> </tr> </table>	<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>
<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 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										

The Conceptual Framework contained in Section 120 applies in all circumstances
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information	periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
Independence	<p>Independence comprises:</p> <p>(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.</p> <p>(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.</p> <p><i>The relationship of independence to objectivity is described in paragraphs 112.3 A1 and 400.1.</i></p>
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 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.
Network	<p>A larger structure:</p> <p>(a) That is aimed at co-operation; and</p> <p>(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.</p>
Network firm	<p>A firm or entity that belongs to a network.</p> <p><i>For further information see Subsection 401.</i></p>

The Conceptual Framework contained in Section 120 applies in all circumstances

Office	A distinct sub-group, whether organized on geographical or practice lines.
Professional accountant	<p>An individual who is a member of an IFAC member body.</p> <p><i>In Part A, the term “professional accountant” refers to professional accountants in business and to professional accountants in public practice and their firms.</i></p> <p><i>In Part B, the term “professional accountant” refers to professional accountants in business.</i></p> <p><i>In Part C, the term “professional accountant” refers to professional accountants in public practice and their firms.</i></p>
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 a professional accountant contracted by such entities.
Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p><i>This term is also used to refer to a firm of professional accountants in public practice.</i></p>
Professional activity	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	<p>(a) A listed entity; and</p> <p>(b) An entity:</p> <p style="padding-left: 20px;">(i) Defined by regulation or legislation as a public interest entity; or</p> <p style="padding-left: 20px;">(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 be promulgated by any relevant regulator, including an audit regulator.</p> <p><i>Other entities might also be considered to be public interest entities, as set out in paragraph 400.6.</i></p>
Reasonable and Informed Third Party	The reasonable and informed third party is a concept which involves a hypothetical person. Such person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgements and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at

Comment [IESBA337]: New sentences

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the time that the evaluation is made, to determine whether the professional accountant has complied with the fundamental principles.

This term is described in paragraph 120.4 A1

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	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	<ul style="list-style-type: none"> (a) All members of the engagement team for the review engagement; and (b) All others within a firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's 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

The Conceptual Framework contained in Section 120 applies in all circumstances
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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 *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 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 in paragraphs:*

Self Interest 120.5 A2(a) & 300.2 A1(a)

Self-review 120.5 A2(b) & 300.2 A1(b)

Advocacy 120.5 A2(c) & 300.2 A1(c)

Familiarity 120.5 A2(d) & 300.2 A1(d)

Intimidation 120.5 A2(e) & 300.2 A1(e)

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