IFAC
Ethics Committee

July 2003

Exposure Draft

Response Due Date November 30, 2003

Proposed Revised Code of Ethics for Professional Accountants

Issued for Comment by the International Federation of Accountants

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REQUEST FOR COMMENTS

This exposure draft and accompanying explanatory memorandum of the Ethics Committee of the International Federation of Accountants (IFAC) were approved for publication by the IFAC Board in July 2003. The proposed revised Code of Ethics for Professional Accountants (the Code) may be modified in the light of comments received before being issued in final form.

Commentators' Guide

The IFAC Ethics Committee welcomes comments on the exposure draft. Commentators should note that the proposed revisions do not extend to Section 8 of the Code. Comments should be limited to the proposed revised sections. Comments on Section 8 will not be considered.

Commentators are referred to the Request for Comments at the end of the Explanatory Memorandum.

In responding to the exposure draft, commentators are requested to refer to the relevant paragraphs within Parts A, B and C. The responses should include the reasons for the comments, and specific suggestions for any proposed changes to wording.

Comments should be submitted so as to be received by **November 30, 2003**, preferably by e-mail or on a computer disk, or in writing. All comments will be considered a matter of public record. Comments should be addressed to:

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New York, New York 10017 USA

E-mail responses should be sent to: EDComments@ifac.org

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and explanation of, the proposed revision to the IFAC *Code of Ethics for Professional Accountants* (the Code), prepared by the IFAC Ethics Committee and approved for exposure by the IFAC Board.

The proposed revised Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. Unless a limitation is specifically stated, the fundamental principles are equally valid for all professional accountants.

The IFAC Board and the IFAC Ethics Committee believes that the establishment of a conceptual framework that requires professional accountants to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is in the public interest. The proposed revised Code represents a conceptual change and member bodies will need to consider the training requirements that may be required for successful implementation.

The proposed revisions do not extend to Section 8, which was issued in November 2001 and is first applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Comments should be limited to the proposed revised sections of the Code. Comments on Section 8 will not be considered.

Background

In November 2001, IFAC issued a revision to Section 8 of the Code, addressing independence requirements for assurance engagements. This section represented the start of a process of change for the Code. It established an international standard, and determined that no IFAC member body or firm is allowed to apply less stringent standards than those stated in that section unless prohibited by law or regulation. This marked a departure for the Code in two respects – firstly, the adoption of the principles based approach and, secondly, the degree of authority given to the section. Previously, the Code had been established as a model on which to base national requirements. Although it was made clear that the basic intent of the Code should always be respected, the Code in itself was not required to be regarded as a standard.

In view of the significant changes in approach, authority and volume of guidance provided, the revised Section 8 was given a long lead time – it is first applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is, however, encouraged, and the response to the section has been extremely positive.

In the light of the success of the revised Section 8, in mid 2002 the IFAC Ethics Committee embarked upon a project to extend the principle based approach to the entire Code, addressing accountants both in public practice and in business. The Committee invited participation from representatives of both the IFAC Professional Accountants in Business Committee (formally Financial and Management Accountant Committee) and the IFAC Public Sector Committee in the revision of those aspects of the Code relating to accountants in business.

Current Exposure Draft – Proposed Revised Code

Degree of Authority

The current Code is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct and states the fundamental principles that should be observed by professional accountants. In those instances where a national requirement is in conflict with a provision in the current Code, the national requirement prevails, although the current Code states that its basic intent should always be respected.

As noted above, Section 8 was established as an international standard such that no IFAC member body or firm is allowed to apply less stringent standards than those stated in that section unless imposed by national law or regulation. The proposed revisions extend this degree of authority to the whole Code, stating that:

> "No member body or firm is allowed to apply less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts of this Code."

Structure of the Code

The proposed revised Code is divided into three parts:

(a) Part A applies to all professional accountants.

(b) Part B applies to professional accountants in public practice.

(c) Part C applies to professional accountants in business.

The proposed revised Code also includes a definitions section.

This structure is essentially unchanged from the current Code, although a revised version of the current introduction to the Code as a whole has now been incorporated into the introduction to Part A. The format means that professional accountants in public practice will need to be familiar with Parts A and B, and professional accountants in business will need to be familiar with Parts A and C. There is a certain amount of repetition of material from Part A in both Parts B and C, intended to aid in the readability and understandability of those two Parts. However, this does not remove the need for all professional accountants to be familiar with all of Part A.

The majority of the definitions in the proposed revised Code remain as they are in the current Code. One notable exception is that the categorization of employed professional accountants has been replace by professional accountants in business, defined as follows:

> "A professional accountant employed in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies."

The IFAC Ethics Committee believes that this term, and corresponding definition, better describe those professional accountants to whom Part C is addressed.

The Framework Approach

The proposed revised Code establishes the fundamental principles of ethics for professional accountants and provides a conceptual framework to assist professional accountants to identify, evaluate and respond to threats to compliance with those principles. If identified threats are other than clearly insignificant, professional accountants are required, where appropriate, to apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

The IFAC Ethics Committee believes that such a framework approach is preferable to a rules based approach to ethics which cannot provide for all circumstances and may lead to unquestioning obedience to the letter of a rule while setting definitive lines in legislation that some will try to circumnavigate.

Areas of Guidance

Part A of the proposed revised Code sets out the fundamental principles and explains the framework approach. It also sets out:

(a) The categories into which many threats to compliance with the fundamental principles may fall;

(b) Examples of safeguards created by the profession, legislation or regulation; and

(c) Examples of safeguards that may increase the likelihood of identifying or deterring unethical behavior.

This Part also includes guidance regarding the resolution of ethical conflicts.

Parts B and C of the proposed revised Code include examples that are intended to illustrate the application of the principles. They identify various circumstances posing potential threats to compliance with the fundamental principles that may be experienced by professional accountants in public practice and professional accountants in business. Examples of safeguards against such threats are also provided, including potential safeguards created in the work environment or by the client.

These examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples presented; rather, they should apply the principles to the particular circumstances they encounter.

Request for Comments

While the IFAC Ethics Committee welcomes all comments on the proposed revised Code, it is particularly interested in respondents' views on the following issues:

(a) Is the structure of the proposed revised Code understandable and useable?

(b) Is the explanation of the framework approach sufficiently clear?

(c) Are the fundamental principles sufficiently articulated?

(d) Does the guidance on specific circumstances contained in Parts B and C cover the appropriate activities and relationships in sufficient depth?

(e) In certain circumstances, the 'ultimate' safeguard has been identified as a prohibition. Where such prohibitions have been identified, is this analysis appropriate?

(f) The IFAC Ethics Committee is considering an implementation date of January 1, 2006 for the proposed revised Code. Is this appropriate?

PROPOSED REVISED CODE OF ETHICS
FOR PROFESSIONAL ACCOUNTANTS

CONTENTS

Definitions

In this Code of Ethics for Professional Accountants the following expressions have the following meanings assigned to them:

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.
Audit client	An entity in respect of which a firm conducts an audit engagement. When the audit client is a listed entity, audit client will always include its related entities.
Audit engagement	An assurance engagement to provide a high level of assurance that financial statements are free of material misstatement, such as an engagement in accordance with International Standards on Auditing. This includes a Statutory Audit which is an audit required by national legislation or other regulation.
Assurance client	An entity in respect of which a firm conducts an assurance engagement.
Assurance engagement	An engagement conducted to provide: (a) A high level of assurance that the subject matter conforms in all material respects with identified suitable criteria; or (b) A moderate level of assurance that the subject matter is plausible in the circumstances. This would include an engagement in accordance with the International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board or in accordance with specific standards for assurance engagements issued by the International Auditing and Assurance Board such as an audit or review of financial statements in accordance with International Standards on Auditing.
Assurance team	(a) All professionals participating in the assurance engagement; (b) All others within a firm who can directly influence the outcome of the assurance engagement, including: 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. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through the firm's chief executive; those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and those who provide quality control for the assurance engagement; and

	(c) For the purposes of an audit client, all those within a network firm who can directly influence the outcome of the audit engagement.
Client account	Any bank account which is used solely for the banking of clients' monies.
Close family	A parent, non-dependent child or sibling.
Direct financial interest	A financial interest: • Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or • Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.
Directors and officers	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
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.
Firm	(a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; and (c) An entity controlled by such parties.
Immediate family	A spouse (or equivalent) or dependent.
Independence	Independence is: (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and

	(b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.
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.
Lead engagement partner	In connection with an audit, the partner responsible for signing the report on the consolidated financial statements of the audit client, and, where relevant, the partner responsible for signing the report in respect of any entity whose financial statements form part of the consolidated financial statements and on which a separate stand-alone report is issued. When no consolidated financial statements are prepared, the lead engagement partner would be the partner responsible for signing the report on the financial statements.
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 firm	An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
Objectivity	A combination of impartiality, intellectual honesty and a freedom from conflicts of interest.
Office	A distinct sub-group, whether organized on geographical or practice lines.
Practice	A sole practitioner, a partnership or a corporation of professional accountants which offers professional services to the public.
Professional accountant	A person who is a member of an IFAC member body.
Professional accountant in business	A professional accountant employed in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies.

Professional accountant in public practice	Each partner or person occupying a position similar to that of a partner, and each employee in a practice providing professional services to a client irrespective of their functional classification (*e.g.,* audit, tax or consulting) and professional accountants in a practice having managerial responsibilities. This term is also used to refer to a firm of professional accountants in public practice.
Publicity	The communication to the public of facts about a professional accountant which are not designed for the deliberate promotion of that professional accountant.
Receiving accountant	A professional accountant in public practice to whom the existing accountant or client of the existing accountant has referred audit, accounting, taxation, consulting or similar appointments, or who is consulted in order to meet the needs of the client.
Related entity	An entity that has any of the following relationships with the client: (a) An entity that has direct or indirect control over the client provided the client is material to such entity; (b) An entity with a direct financial interest in the client provided that such 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 (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.
Solicitation	The approach to a potential client for the purpose of offering professional services.

APPLICATION OF THE CODE

The Code set out below is divided into three parts:

- Part A applies to all professional accountants.
- Part B applies to professional accountants in public practice.
- Part C applies to professional accountants in business.

PART A

SECTION 1

Introduction

General

1.1 This Part of the Code applies to all professional accountants.

1.2 The International Federation of Accountants (IFAC) believes that preparing detailed ethical requirements is primarily the responsibility of the member bodies in each country, which are also responsible for implementing and enforcing such requirements.

1.3 IFAC also believes that the global identity of the accountancy profession is characterized by its endeavour to achieve a number of common objectives and by its observance of certain fundamental principles for that purpose.

1.4 IFAC, recognizing the responsibilities of the accountancy profession and considering its own role to be that of establishing high quality standards, providing guidance, encouraging continuity of efforts and promoting harmonization, has deemed it essential to establish an international Code of Ethics for Professional Accountants. This Code will serve as the basis for the ethical requirements (code of ethics, detailed rules, guidelines, standards of conduct, etc.) for professional accountants in each country.

1.5 No member body or firm is allowed to apply less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts of this Code. *For those countries that wish to adopt the Code as their own national Code, IFAC has developed wording which may be used to indicate the authority and applicability in the country concerned. The wording is contained in the IFAC Statement of Policy of Council** Preface to Ethical Requirements of (Name of Member Body).*[1]

[1] This text may become redundant depending on the progress of the Statements of Membership Obligations (SMOs).

The Public Interest

1.6 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.

1.7 The public interest is considered to be the collective well-being of the community of people and institutions the professional accountant serves, including clients, lenders, governments, employers, employees, investors, the business and financial community and others who rely on the work of professional accountants.

1.8 This Code sets out the professional accountant's ethical responsibilities to act in the public interest.

Framework Approach

1.9 This Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. Unless a limitation is specifically stated, the fundamental principles are equally valid for all professional accountants.

1.10 The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate mitigating action. In addition, the nature of engagements and assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires professional accountants to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This Code provides a framework to assist professional accountants to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, professional accountants should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

1.11 Professional accountants should take qualitative as well as quantitative factors into account when considering the significance of any potential threat. If they cannot implement appropriate safeguards, they should either decline or discontinue the specific professional service involved, or consider resigning from the client (in the case of professional accountants in public practice) or the employing organization (in the case of professional accountants in business).

1.12 Professional accountants have an obligation to evaluate any threats to compliance with the fundamental principles when they know, or could reasonably be expected to know, of circumstances or relationships that might compromise compliance with the fundamental principles. There may be occasions when a professional accountant inadvertently violates a provision of this Code. If that happens, depending on the nature and significance of the matter, it may not compromise compliance with the fundamental principles as long as, once the violation is discovered, its effect is evaluated promptly, corrected when appropriate and any necessary safeguards are applied.

1.13 Parts B and C of this Code include examples that are intended to illustrate the application of the principles and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples presented; rather, they should apply the principles to the particular circumstances they encounter.

Fundamental Principles

1.14 The fundamental principles are:

(a) *Integrity*
A professional accountant should be straightforward and honest in all professional and business relationships.

(b) *Objectivity*
A professional accountant should not allow prejudice or bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) *Professional Competence and Due Care*
A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards in all professional and business relationships.

(d) *Confidentiality*
A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

(e) *Professional Behavior*
A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Threats and Safeguards

1.15 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

(a) Self-interest threats, which may occur as a result of the financial or other interests of professional accountants or of immediate or close family members;

(b) Self-review threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;

(c) Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;

(d) Familiarity threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and

(e) Intimidation threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

Parts B and C of this Code, respectively, provide examples of circumstances that may create these categories of threat for professional accountants in public practice and professional accountants in business.

1.16 Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

1.17 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

- Educational, training and experience requirements for entry into the profession.
- Continuing professional development requirements.
- Corporate governance regulations.
- Professional standards.
- Professional or regulatory monitoring and disciplinary procedures.
- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

1.18 Parts B and C of this Code, respectively, also discuss safeguards in the work environment for professional accountants in public practice and those in business.

1.19 Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organization, include, but are not restricted to:

- Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.
- An explicitly stated duty to report breaches of ethical requirements.

1.20 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising their judgment, professional accountants should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.

Ethical Conflict Resolution

1.21 In applying standards of ethical conduct, professional accountants may encounter problems in resolving an ethical conflict. When faced with significant ethical issues, they should follow the established policies of their firm, employing organization or professional body to try and resolve the conflict.

1.22 When initiating either a formal or informal conflict resolution process, professional accountants should consider the following, either individually or together with others, as part of the resolution process:

(a) Relevant facts;

(b) Ethical issues involved;

(c) Fundamental principles related to the matter in question;

(d) Established internal procedures; and

(e) Alternative courses of action.

Having considered these issues, professional accountants should determine the best course of action consistent with the fundamental principles identified. They should also weigh the consequences of each possible course of action. If the matter remains unresolved, they should approach other appropriate persons within their firm or their employing organization for help in obtaining resolution.

1.23 Where a matter involves a conflict with, or within, an organization, professional accountants should also consider approaching the audit committee or other body responsible for governance of that organization. It may be in the best interests of the professional accountants to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.

1.24 If a significant conflict cannot be resolved, professional accountants may wish to consult the relevant professional body, which may be able to provide guidance on ethical issues without breaching confidentiality. They may also consider seeking legal advice.

1.25 If, after exhausting all relevant possibilities, the matter remains unresolved, professional accountants should, where possible, refuse to remain associated with the matter. They may also consider whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

SECTION 2

Integrity

2.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.

2.2 Professional accountants should not be associated with reports, returns, communications or other information where they believe that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information furnished recklessly; or

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

SECTION 3

Objectivity

3.1 The principle of objectivity imposes an obligation on all professional accountants that their professional or business judgment should not be compromised by prejudice or bias, conflict of interest or the undue influence of others.

3.2 Professional accountants may be exposed to situations that may impair their objectivity. It is impracticable to define and prescribe all such situations. Relationships that allow prejudice, bias or the undue influences of others to override professional judgment should be avoided.

SECTION 4

Professional Competence and Due Care

4.1 The principle of professional competence and due care imposes the following obligations on professional accountants:

(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and

(b) To act diligently in accordance with applicable technical and professional standards in all professional and business relationships.

4.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

(a) Attainment of professional competence; and

(b) Maintenance of professional competence

4.3 The attainment of professional competence initially requires a high standard of general education, followed by specific education, training and examination in professionally relevant subjects and, if prescribed, a period of work experience. This should be the normal pattern of development for professional accountants. Professional accountants should also take steps to ensure that those working under their authority in a professional capacity have appropriate training.

4.4 The maintenance of professional competence requires a continuing awareness of relevant technical professional and business developments.

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

4.6 Where appropriate, professional accountants should make clients or employers aware of limitations inherent in certain services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

SECTION 5

Confidentiality

5.1 The principle of confidentiality imposes an obligation on professional accountants to refrain from:

(a) Disclosing confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

(b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

5.2 Professional accountants should maintain confidentiality even in a social environment, particularly in circumstances where long association with business associates or close or immediate family relationships might result in their being less alert to the possibility that they may be inadvertently indiscreet.

5.3 Professional accountants should also maintain confidentiality regarding information disclosed by prospective clients or employers.

5.4 Professional accountants should take all reasonable steps to ensure that staff under their control and persons from whom advice and assistance is obtained respect the duty of confidentiality.

5.5 The need to comply with the principle of confidentiality continues even after the end of relationships between professional accountants and their clients or employers. When professional accountants change employment or acquire new clients, they are entitled to use the experience gained in their previous activities. They should not, however, use or disclose any confidential information either acquired or received by them as a result of a professional or business relationship.

5.6 The following are circumstances where professional accountants are required to disclose confidential information or when such disclosure may be appropriate:

(a) Disclosure is permitted by law and is authorized by the client or the employer;

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

(i) Production of documents or other provision of evidence in the course of legal proceedings;

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(c) There is a professional duty or right to disclose, when not prohibited by law:

(i) To comply with technical standards and ethics requirements;

(ii) To protect the professional interests of a professional accountant in legal proceedings;

(iii) To comply with the quality review of a member body or professional body; or

(iv) To respond to an inquiry or investigation by a member body or regulatory body.

5.7 In deciding whether to disclose confidential information, professional accountants should consider the following points:

(a) When a client or employer gives authorization to disclose information, whether or not the interests of all the parties, including third parties whose interests might be affected, could be harmed;

(b) Whether or not all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any; and

(c) The type of communication that is expected and to whom it is addressed ; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

SECTION 6

Professional Behavior

6.1 The principle of professional behavior imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that might bring discredit to the profession. This also applies to situations which could be presumed by a reasonable and informed third party, having knowledge of all relevant information, to impact on the good reputation of the profession.

6.2 In marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute. Professional accountants should be honest and truthful and should not:

(a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or

(b) Make disparaging references or unsubstantiated comparisons to the work of others.

PART B: PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 1

Introduction

General

1.1 This Part of the Code applies to all professional accountants in public practice. Professional accountants in public practice should also follow the guidance set out in Part A of this Code, which applies to all professional accountants. Where the term professional accountants is used in this Part, it should be taken to refer to professional accountants in public practice.

1.2 Professional accountants in public practice should comply with the fundamental principles, which are:

(a) *Integrity*
A professional accountant should be straightforward and honest in all professional and business relationships.

(b) *Objectivity*
A professional accountant should not allow prejudice or bias, conflict of interest or undue influence of others to override professional or business judgment.

(c) *Professional Competence and Due Care*
A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards in all professional and business relationships.

(d) *Confidentiality*
A professional accountant should respect the confidentiality of information acquired as a result of professional or business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

(e) *Professional Behavior*

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

1.3 Professional accountants in public practice should not concurrently engage in any business, occupation or activity that impairs or might impair their integrity, objectivity or the good reputation of the profession and that would be incompatible with the rendering of professional services.

1.4 The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. This Part of the Code of Ethics provides a framework, built on principles, to assist professional accountants in public practice to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, professional accountants should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised. If they cannot implement appropriate safeguards, professional accountants should either decline or discontinue the specific engagement involved or consider withdrawing from the client relationship.

1.5 The examples in the following sections are intended to illustrate the application of the principles and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants in public practice that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples presented; rather, they should apply the principles to the particular circumstances they face.

1.6 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed more fully in Part A of this Code.

The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client, a non-audit assurance client or a non-assurance client.

1.7 Examples of circumstances that may create self-interest threats for professional accountants in public practice include, but are not limited to:

- A financial interest in a client where the performance of professional services may affect the value of that interest.
- A loan to or from an assurance client or any of its directors or officers where the performance of professional services may affect the value of that loan.
- Concern about the possibility of losing a recurring client.

- Potential employment with a client.

1.8 Examples of circumstances that may create self-review threats include, but are not limited to:

- The discovery of a significant error during a re-evaluation.
- Reporting on the operation of financial systems after being involved in their design or implementation.
- A member of the engagement team for an assurance client being, or having recently been, a director or officer of that client.
- A member of the engagement team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.
- Having prepared the original data used to generate records that are the subject matter of the engagement.

1.9 Examples of circumstances that may create advocacy threats include, but are not limited to:

- Promoting shares in a listed entity when that entity is an audit client.
- Acting as an advocate on behalf of an assurance client in resolving disputes with third parties.

1.10 Examples of circumstances that may create familiarity threats include, but are not limited to:

- A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
- A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
- A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
- Accepting gifts or preferential treatment, unless the value is clearly insignificant.

1.11 Examples of circumstances that may create intimidation threats include, but are not limited to:

- Being threatened with dismissal or replacement in relation to a client engagement.
- Being threatened with litigation.
- Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

1.12 Professional accountants may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, professional accountants should always be on the alert for such circumstances and threats.

1.13 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

In the work environment, the relevant safeguards will vary depending on the circumstances. In exercising their judgment in terms of how to best deal with an identified threat, professional accountants should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be unacceptable. Their consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

1.14 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 1.17 of Part A of this Code.

1.15 Firm-wide safeguards in the work environment (i.e., the firm) may include:

- Firm leadership that stresses the importance of compliance with the fundamental principles.
- Policies and procedures to implement and monitor quality control of client engagements.
- Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level.
- Internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's policies and procedures, and any changes to them, to all partners and professional staff, including appropriate training and education.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the safeguarding system.
- A disciplinary mechanism to promote compliance with policies and procedures.

- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

1.16 Engagement-specific safeguards in the work environment may include:

- Involving an additional professional accountant to review the work done or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- Rotating senior personnel.
- Discussing ethical issues with those in charge of client governance.
- Disclosing to those charged with client governance the nature of services provided and extent of fees charged.
- Involving another firm to perform or re-perform part of the engagement.

1.17 Depending on the nature of the engagement, professional accountants in public practice may also be able to rely on safeguards that the client has implemented.

1.18 Safeguards within the client's systems and procedures may include:

- When a client appoints a firm in public practice to perform an engagement, persons other than management ratify or approve the appointment.
- The client has competent employees to make managerial decisions.
- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

1.19 Where professional accountants wish to rely on client-implemented safeguards, they should evaluate the safeguards they wish to rely on to determine whether those safeguards are sufficient and appropriate. This evaluation will vary depending on the circumstances and will be affected by matters such as the significance of the potential threat and the nature of the engagement.

SECTION 2

Behavior in Public Practice

Marketing Professional Services

2.1 When professional accountants in public practice solicit new work through advertising or other forms of marketing, there may be potential threats to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behavior might arise if services, achievements or products are marketed in a way that is inconsistent with that principle.

2.2 Safeguards against such a threat include:

- Providing information fairly and in a manner that is not misleading.
- Avoiding unsubstantiated or disparaging statements.
- Complying with relevant laws, regulations and best practice.
- Consultation with the relevant professional body.

Client Acceptance

2.3 Before accepting a new client relationship, professional accountants should consider whether acceptance poses any threats to compliance with the fundamental principles. Potential threats to integrity may arise from, for example, questionable issues associated with the client (its owners, management and activities).

2.4 Client issues that could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.

2.5 The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level.

2.6 Appropriate safeguards might include obtaining a knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.

2.7 Where it is not possible to reduce the threats to an acceptable level, professional accountants should ordinarily decline to enter into the client relationship.

2.8 Acceptance decisions should be periodically reviewed for recurring client relationships.

Individual Service on an Engagement

2.9 Professional accountants in public practice should consider whether there are threats to compliance with the fundamental principles resulting from having interests in, or relationships with, the client entity or its personnel. For example, a familiarity threat to objectivity may arise from family or close personal or business relationships.

2.10 Professional accountants should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards may include:

- Withdrawing from the engagement team.
- Supervisory procedures.
- Terminating the financial or business relationship giving rise to the threat.
- Discussing the issue with higher levels of management within the firm.
- Discussing the issue with those responsible for the client's governance.

Engagement Acceptance

Professional Competence

2.11 Professional accountants in public practice should agree to provide only those services that they are competent to perform. Before accepting a specific client engagement, professional accountants should consider whether acceptance poses any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care may arise if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

2.12 Professional accountants should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to reduce them to an acceptable level. Such safeguards may include:

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide a reasonable assurance that specific engagements are accepted only when they can be performed competently.

Use of Experts

2.13 Professional accountants should be in a position to competently perform whatever engagements they undertake. Where this is not the case, there is a clear threat to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care may arise when professional accountants accept an engagement without having the necessary specialist knowledge for the competent performance of that engagement.

2.14 Such a threat may be mitigated or reduced to an acceptable level by seeking advice or assistance from experts such as other professional accountants, lawyers, actuaries, engineers and valuers. Professional accountants should evaluate whether it is appropriate for them to rely on the advice or work of such experts, having regard to factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Gifts and Hospitality

2.15 Professional accountants may find themselves in situations where they, or immediate or close family members, are offered gifts and hospitality. Such offers ordinarily give rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity may arise from the temptation to accept gifts; intimidation threats to objectivity may result from the possibility of such offers being made public.

2.16 The significance of such threats will depend on the nature, value and intent behind the offer. Where offers of gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider insignificant are made in an open manner, professional accountants may conclude that the offers are made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, they may generally conclude that there is no significant threat to compliance with the fundamental principles.

2.17 If evaluated threats are other than clearly insignificant, professional accountants should not accept such offers.

SECTION 3

Conflicts of Interest

3.1 Professional accountants should take reasonable steps to avoid circumstances that could pose a conflict of interests. Such circumstances may give rise to threats to compliance with the fundamental principles. For example, a self-interest threat to objectivity may arise when professional accountants compete directly with a client or have joint ventures or similar arrangements with major competitors of that client. A self-interest threat to objectivity may also arise when professional accountants perform services for clients whose interests are in conflict with each other in relation to the matter or transaction in question.

3.2 Professional accountants should evaluate the significance of threats. Evaluation includes considering, before accepting or continuing a new client relationship or specific engagement, whether they have any relationships with clients or third parties that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level.

3.3 Safeguards will ordinarily include professional accountants:

- Notifying all relevant parties that they are acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent that they may so act.
- Notifying all relevant parties that they have relationships with clients or third parties that could give rise to conflicts of interest.
- Such safeguards may, however, be precluded in some circumstances due to the constraints of confidentiality.

3.4 Additional safeguards include:

- The use of separate engagement teams, with separate internal reporting lines.
- Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing).
- Clear guidelines for engagement personnel on issues of security and confidentiality.
- Regular review of the application of safeguards by a senior individual not involved with either client engagement.
- Policies and procedures for dealing with conflicts of interest.

3.5 Where a threat cannot be eliminated or reduced to an acceptable level through the application of safeguards, professional accountants should conclude that it is not appropriate to accept a specific engagement or that they should resign from one or more conflicting engagements.

3.6 Where professional accountants in public practice have requested consent from a client to act for another party in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, then they must not continue to act for the other party in the matter giving rise to the conflict of interest.

SECTION 4

Changes in a Professional Appointment

Recurring Work

4.1 A professional accountant who is asked to replace another professional accountant, or who is considering tendering for an engagement currently held by another professional accountant, should determine whether there are any professional or other reasons, such as circumstances that threaten compliance with the fundamental principles, for not accepting the engagement. For example, there may be a threat to professional competence and due care if a professional accountant accepts the engagement before knowing all the pertinent facts.

4.2 The significance of the threats should be evaluated. Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances behind the proposed change so that the professional accountant can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision as to whether to accept the appointment.

4.3 Existing accountants are also bound by confidentiality. The extent to which they can and should discuss the affairs of their clients with proposed accountants will depend on the nature of the engagement and on:

(a) Whether the client's permission to do so has been obtained; or

(b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

4.4 In the absence of specific instructions by their clients, existing accountants should not ordinarily volunteer information about the clients' affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 5 of Part A of this Code.

4.5 If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level.

4.6 Such safeguards include:

- Discussing the client's affairs fully and freely with the existing accountant;
- Asking existing accountants to provide information on any facts or circumstances within their knowledge, that, in their opinion, the proposed accountants should be aware of before deciding whether or not to accept the engagement;

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted.

4.7 Professional accountants will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion with existing accountants. Once that permission is obtained, existing accountants should comply with relevant legal and other regulations governing such requests. Where existing accountants provide information, they should do so honestly and unambiguously. If the proposed accountants are unable to communicate with the existing accountants, they should try to obtain information about any possible threats by other means.

4.8 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, professional accountants in public practice should, unless there is satisfaction as to necessary facts by other means, consider whether to decline the engagement.

Other Work

4.9 Professional accountants may be asked to undertake work that is complementary or additional to the work of an existing accountant. Such circumstances may give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

SECTION 5

Second Opinions

5.1 Situations where professional accountants in public practice are asked to provide a written 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 may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

5.2 When asked to provide such an opinion, professional accountants should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards will ordinarily include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.

5.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, professional accountants should consider whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

SECTION 6

Fees and Other Types of Remuneration

6.1 When entering into negotiations regarding professional and business relationships, professional accountants may quote whatever fee they deem to be appropriate. The fact that one professional accountant may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, there may be a self-interest threat to professional competence and due care if the fee quoted is so low that it may be difficult to perform the engagement satisfactorily for that price.

6.2 The significance of such threats will depend on factors such as the level of fee quoted, the services to which it applies and the availability of comparison with other quotes. In view of these potential threats, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Safeguards which may be adopted include:

- Making clients aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
- Assigning appropriate time and qualified staff to the task.

6.3 Contingent fees are widely used for certain types of non-assurance engagements.[2] They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. For example, there may be a self-interest threat to objectivity when a contingent fee is agreed on but is not considered normal professional or business practice for the type of engagement in question. The significance of such threats will depend on factors including:

- The degree of objectivity required for the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Whether the outcome or result of the transaction is to be reviewed by an independent third party.

6.4 The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards might include:

- An advance written agreement with the client as to the basis of remuneration.
- Disclosure of the work the professional accountants have done and the basis of remuneration for any document they have prepared in contemplation that a third party may (with their agreement) rely on it.
- Quality control policies and procedures.
- Review of the work done by an objective third party.

[2] Contingent fees for assurance engagements are discussed in Section 8 of this part of the Code

6.5 In certain circumstances, professional accountants may receive referral fees or commissions relating to their clients. For example, where they do not themselves provide the specific service required, they may receive a fee for referring a continuing client to another professional accountant in public practice or other expert. Professional accountants may receive commissions from third parties (e.g., software vendors) in connection with sales of goods or services to a client. Accepting such referral fees or commissions may give rise to self-interest threats to objectivity and professional competence and due care.

6.6 Professional accountants may also pay referral fees to obtain clients, for example, where the clients continue as clients of other professional accountants but require specialist services not offered by the existing accountants. The payment of such referral fees may also give rise to self-interest threats to objectivity and professional competence and due care.

6.7 Professional accountants should not pay referral fees or receive such fees or commissions unless they have established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:

- Disclosing to clients any arrangements to pay referral fees to another professional accountant for work performed for them.
- Disclosing to clients any arrangements to receive referral fees for referring them to another professional accountant in public practice.
- Disclosing to clients any arrangements to receive commission in connection with the sale by third parties of goods or services to those clients.
- Obtaining agreement in advance from clients to commission arrangements in connection with the sale by third parties of goods or services to those clients.

6.8 Professional accountants may purchase all or part of an accounting practice with the proviso that payments will be made to individuals formerly engaged in the practice or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraph 6.5 – 6.7 above.

SECTION 7

Custody of Client Assets

7.1 Professional accountants should assume custody of client monies or other assets only where permitted to do so by law and having regard to any additional legal duties imposed on professional accountants in public practice holding such assets.

7.2 The holding of client assets gives rise to threats to compliance with the fundamental principles for example there may be a self-interest threat to integrity or professional behavior arising from holding client assets. To safeguard against such threats, professional accountants entrusted with money (or other assets) belonging to others should:

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

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

(c) At all times, be ready to account for those assets to any persons entitled to such accounting; and

(d) Comply with all relevant law and regulations relevant to the holding of and accounting for such assets.

7.3 In addition, professional accountants should be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were found to derive from illegal activities, such as money laundering. As part of client and engagement acceptance procedures for such services, professional accountants should make appropriate enquiries about the source of such assets and should consider their legal and regulatory obligations. They may also consider seeking legal advice.

PART C: PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 1

Introduction

1.1 This Part of the Code applies to all professional accountants in business. Professional accountants in business should also follow the guidance set out in Part A of this Code, which applies to all professional accountants. Where the term professional accountants is used in this Part, it should be taken to refer to professional accountants in business.

1.2 Professional accountants in business should comply with the fundamental principles, which are:

(a) *Integrity*
A professional accountant should be straightforward and honest in all professional and business relationships.

(b) *Objectivity*
A professional accountant should not allow prejudice or bias, conflict of interest or undue influence of others to override professional or business judgment.

(c) *Professional Competence and Due Care*
A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards in all professional and business relationships.

(d) *Confidentiality*
A professional accountant should respect the confidentiality of information acquired as a result of professional or business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

(e) *Professional Behavior*
A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

1.3 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

1.4 Professional accountants may be salaried employees, partners, directors (whether executive or non-executive), owner managers, volunteers or others working for one or more employing organization. The legal form of the relationship with the employing organization has no bearing on the ethical responsibilities incumbent on professional accountants in business.

1.5 Professional accountants have a responsibility to further the legitimate aims of their employing organization. This Part of the Code does not seek to hinder professional accountants from properly fulfilling that responsibility, but considers circumstances in which conflicts may arise with their absolute duty to comply with the fundamental principles.

1.6 Professional accountants in business often occupy senior positions within employing organizations. The more senior they become, the greater will be their ability and opportunity to influence events, practices and attitudes. Professional accountants are encouraged, therefore, to establish an ethics-based culture in their employing organizations.

1.7 The environment in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. This Part of the Code of Ethics provides a framework, built on principles, to assist professional accountants in business to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, professional accountants should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level so that compliance with the fundamental principles is not compromised. If appropriate safeguards cannot be implemented, professional accountants should either refrain from performing the specific professional service involved or consider resigning from the employing organization.

1.8 The examples presented in the following sections are intended to illustrate the application of the principles and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by professional accountants in business that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for professional accountants merely to comply with the examples; rather, they should apply the principles to the particular circumstances they face.

1.9 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed more fully in Part A of this Code.

1.10 Examples of circumstances that may create self-interest threats for professional accountants in business include, but are not limited to:

- Financial interests, loans or guarantees.
- Incentive arrangements.
- Concern over employment security.
- Commercial pressure from outside the employing organization.

1.11 Circumstances that may create self-review threats include, but are not limited to, business decisions or data being subject to review and justification by the same person responsible for making those decisions or preparing that data.

1.12 Examples of circumstances that may create advocacy threats include, but are not limited to:

- Commenting publicly on future events in particular circumstances where outcomes may be doubtful or where information is incomplete.
- Acting publicly as an advocate for a particular position where bias may arise or where the validity of that position may later be called into question.

1.13 Examples of circumstances that may create familiarity threats include, but are not limited to:

- A person in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
- Long association with business contacts influencing business decisions.
- Acceptance of gifts or preferential treatment, unless the value is clearly insignificant.

1.14 Examples of circumstances that may create intimidation threats include, but are not limited to:

- Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
- A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts.

1.15 Professional accountants may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In all professional and business relationships, professional accountants should always be on the alert for such circumstances and threats.

1.16 Safeguards that may eliminate or reduce to acceptable levels the threats faced by professional accountants fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

1.17 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 1.17 of Part A of this Code.

1.18 Safeguards in the work environment include, but are not restricted to:

- The employing organization's systems of corporate oversight or other oversight structures.
- The employing organization's ethics and conduct programs.
- Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organization's policies and procedures, and any changes to them, to all employees.
- The provision of appropriate training and education to employees.
- Policies and procedures to empower employees to communicate to senior levels any ethical issues that concern them. This includes informing employees of the procedures open to them.

SECTION 2

Potential Conflicts

2.1 Professional accountants have a professional obligation to comply with the fundamental principles. There may be times, however, when their responsibilities to an employing organization and their professional obligations to comply with the fundamental principles are in conflict. Ordinarily, professional accountants should support the legitimate and ethical objectives established by their employers and the rules and procedures drawn up in support of those objectives. Nevertheless, where compliance with the fundamental principles is threatened, professional accountants must consider their response to the circumstances.

2.2 As a consequence of their responsibilities to their employing organization, professional accountants may find themselves under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from supervisors, managers, directors or other individuals within the employing organization. Professional accountants may find themselves under pressure to:

- Act contrary to law or regulation.
- Act contrary to technical or professional standards.

- Facilitate unethical or illegal earnings management strategies.
- Lie to, or otherwise intentionally mislead (including misleading by keeping silent) others, in particular:
  - Those acting as auditors to the employing organization; or
  - Regulators.
- Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:
  - The financial statements;
  - Tax compliance;
  - Legal compliance; or
  - Reports required by securities regulators.

2.3. The significance of threats arising from such pressures, such as intimidation threats, should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Safeguards that might mitigate such pressures include:

- Obtaining advice where appropriate from within the employing organization, an independent professional advisor or a relevant professional body.
- The existence of a formal dispute resolution process within the employing organization.
- Seeking legal advice.

2.4 Where it is not possible to reduce the threat to an acceptable level, professional accountants may conclude that it is appropriate to consider resigning from the employing organization. In circumstances where professional accountants believe that unethical behaviors or actions by others will continue to occur within the employing organization, they may wish to consider seeking legal advice.

SECTION 3

Preparation and Reporting of Information

3.1 Professional accountants are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. Professional accountants should prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context. Professional accountants should maintain information for which they are responsible in a manner that:

(a) Describes clearly the true nature of business transactions, assets or liabilities;

(b) Classifies and records information in a timely and proper manner; and

(c) Does not materially misrepresent the facts.

3.2 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may arise where professional accountants may be pressured (either externally or by the possibility of personal gain) to allow themselves to be associated with misleading information or to become associated with misleading information through the actions of others.

3.3 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards might include consultation with superiors within the employing organization, for example, the audit committee or other body responsible for governance, or with a relevant professional body.

3.4 Where it is not possible to reduce the threat to an acceptable level, professional accountants should refuse to remain associated with information they consider is or may be misleading. Should they be aware that the issuance of misleading information is either significant or persistent, they should consider informing appropriate authorities in line with the guidance in Section 7. They may also wish to take legal advice or consider resignation.

SECTION 4

Acting with Sufficient Expertise

4.1 The fundamental principle of professional competence and due care requires that professional accountants should only undertake significant tasks for which they have, or can obtain, sufficient specific training or experience. They should not intentionally mislead employers as to how much expertise or experience they have, nor should they fail to seek appropriate expert advice and assistance when required.

4.2 Circumstances that may threaten the ability of professional accountants to perform their duties with the appropriate degree of professional competence and due care include:

- Insufficient time for properly performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties properly.
- Insufficient experience, training and/or education.
- Inadequate resources for the proper performance of the duties.

4.3 The significance of such threats will depend on factors such as the extent to which the professional accountants are working with others, their relative seniority in the business and the level of supervision and review applied to their work. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Safeguards that may be considered include:

- Obtaining additional advice or training.

- Ensuring that there is adequate time available for performing the relevant duties.
- Obtaining assistance from someone with the necessary expertise.
- Consulting, where appropriate, with:
  - Superiors within the employing organization;
  - Independent experts; or
  - A relevant professional body.

4.4 Where threats cannot be eliminated or reduced to an acceptable level, professional accountants should refuse to perform the duties in question, making clear their reasons for doing so.

SECTION 5

Financial Interests

5.1 Professional accountants in business may have financial interests that could, in certain circumstances, give rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may arise through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples include situations where the professional accountant or an immediate or close family member:

- Holds a significant direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the professional accountant;
- Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant;
- Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant;
- Holds, directly or indirectly, share options in the employing organization which are, or will soon be, eligible for conversion; or
- May qualify for share options in the employing organization or performance related bonuses if certain targets are achieved.

5.2 In evaluating the significance of such a threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, professional accountants must examine the nature of the financial interest. This includes an evaluation of the significance of the financial interest and whether it is direct or indirect. Clearly, what constitutes a significant or valuable stake in an organization will vary from individual to individual, depending on personal circumstances.

5.3 If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce them to an acceptable level. Such safeguards might include:

- Alertness to the threats inherent in holding or trading capital instruments in the employing organization.

- Disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organization, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organization.
- Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
- Internal and external audit procedures.
- Up-to-date education on ethical issues and the legal restrictions and other regulations around potential insider trading.

5.4 Professional accountants should neither manipulate information nor use privileged information for personal gain.

SECTION 6

Inducements

Receiving Offers of Inducements

6.1 Professional accountants in business may find themselves in situations where they or immediate or close family members are offered inducements. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.

6.2 Offers of inducements may create threats to compliance with the fundamental principles. When they or their immediate or close family members are offered inducements, professional accountants should consider the situation carefully. Self-interest threats to objectivity or confidentiality may arise where offers are made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior or obtain confidential information. Intimidation threats to objectivity or confidentiality may arise if an offer of an inducement, whether accepted or declined, is followed by threats to make that offer public and damage the reputation of either the professional accountant or an immediate or close family member.

6.3 The significance of such threats will depend on the nature, value and intent behind the offer. When offers of inducements which a reasonable and informed third party, having knowledge of all relevant information, would consider insignificant and not intended to encourage unethical behaviour are made in an open manner, then professional accountants may conclude that the offers are made in the normal course of public relations without the specific intent to influence decision making or to obtain information. In such cases, they may generally conclude that there is no significant threat to compliance with the fundamental principles.

6.4 If evaluated threats are other than clearly insignificant, professional accountants should not accept inducements. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of inducements but, sometimes, merely from the fact of the offer having been made, additional safeguards should be adopted. Professional accountants should assess the risk associated with all such offers and should:

(a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organization;

(b) Consider whether it is appropriate to inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; professional accountants should, however, consider seeking legal advice before taking such a step;

(c) Advise immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example as a result of their employment situation; and

(d) Consider whether it is appropriate to inform higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

Offering Inducements

6.5 Professional accountants may find themselves in situations where they are expected to, or are under other pressure to, offer inducements to subordinate the judgment of another individual or organization, influence a decision-making process or obtain confidential information.

6.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organization and, by extension, the professional accountant, can be influenced improperly.

6.7 Threats to compliance with the fundamental principles may arise in the following circumstances:

- A professional accountant experiences pressure from within the employing organization to offer an inducement to subordinate the judgment of another individual or organization, influence a decision-making process or obtain information; or
- A third party outside the employing organization asks a professional accountant for an inducement that might influence favorable business decisions or actions.

6.8 Professional accountants should not offer inducements that a reasonable and informed third party, having knowledge of all relevant information, would consider to have an improper influence on the professional judgment of those with whom the accountants have a professional or business relationship.

6.9 Where the pressure to offer an unethical inducement comes from within the employing organization, professional accountants should follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

SECTION 7

Disclosing Confidential Information

7.1 Professional accountants should maintain the fundamental principle of confidentiality. They should not disclose confidential information acquired in the course of their work unless permitted to do so or as required by law or regulation.

7.2 The possession of confidential information may give rise to specific threats to confidentiality in certain circumstances. For example, the possession and non-disclosure of confidential information may threaten compliance with the fundamental principles when professional accountants:

- Are required by law to disclose information, for example, in connection with anti-money laundering or anti-terrorist legislation; or
- Are permitted by law to disclose information or believe that confidential information should be disclosed in the public interest, for example, where the employing organization has committed, or proposes to commit, a crime or fraudulent act.

7.3 Where required by law to disclose confidential information, for example as a result of anti-money laundering or anti-terrorist legislation, or in connection with legal proceedings involving either themselves or the employing organization, professional accountants in business should always disclose that information in compliance with relevant legal requirements. They should also consider obtaining legal advice and/or consulting their professional body before making any disclosure.

7.4 Some circumstances, professional accountants may consider disclosing information outside the employing organization, when not obligated to do so by law or regulation because they believe it would be in the public interest. When considering such disclosure, professional accountants should, where appropriate, follow the internal procedures of the employing organization in an attempt to rectify the situation. If the matter cannot be resolved within the employing organization, professional accountants in business should consider matters including the following:

- Legal constraints and obligations.
- Whether members of the public are likely to be adversely affected.
- The gravity of the matter, for example the size of the amounts involved and the extent of likely financial damage.
- The possibility or likelihood of repetition.
- The reliability and quality of the information available.
- The reasons for the employing organization's unwillingness to disclose matters to the relevant authority.

7.5 In deciding whether to disclose confidential information, they should also consider the following points:

- When the employer gives authorization to disclose information, whether or not the interests of all the parties, including third parties whose interests might be affected, could be harmed;
- Whether or not all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any;

- The type of communication that is expected and to whom it is addressed; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients; and
- The legal or regulatory obligations and the possible implications of disclosure for the professional accountant.

7.6 Before making such disclosure, professional accountants should obtain legal advice as to their duties and obligations in the context of their professional and business relationships.