



RISK MANAGEMENT AND REPORTING

Introduction

Managing risk is a part of our everyday responsibilities for all of us. It enables us to make decisions about what we do and how we do things – both strategically and in day to day tasks.

We expect everyone to consider risk when planning and managing activities from strategic planning, operational planning through to contract management, project planning and the implementation of these plans.

Risk management does not just mean avoiding risks. We need to balance the risks we take with the achievement of our strategic goals – if we take no risks at all we will never achieve these goals.

This policy and guidance sets out when you need to report risks including when to discuss risk with senior management, the Board and the Council. It clarifies when a risk is significant enough to be reported to senior management and when it can be managed within a department or team. It is important that only significant risks are escalated.

This document contains:

- Definition of risk;
- Guidance on how to identify risks;
- Clarification on how to set the priority of risks;
- Guidance on how to report risks and who to report them to; and
- Roles and responsibilities.

Definition of risk

We define risk as **an uncertain event, which will affect the achievement of objectives, if it occurs¹**.

A risk needs to be described as what might occur and what effect this might have.

A good example of a risk is:

“The various oversight bodies and regulators (such as FRC (POB, AADB), AIU, UKLA and/or FSA, BoE) claim greater regulatory and licensing powers/influence resulting in reduced income and status for ICAEW.”

The uncertain event or “what might occur” is: the various oversight bodies and regulators claim greater regulatory and licensing powers/influence

The effect, if it occurs, is: reduced income and status for ICAEW

Things that are not risks

Issues are not risks. An issue is something that has already happened. A risk is the potential for an issue to arise.

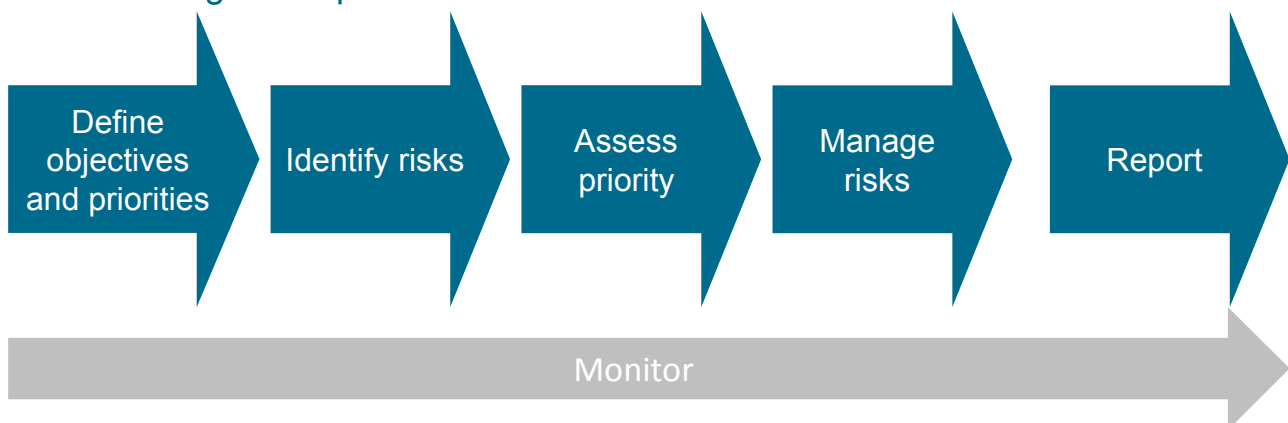
A situation arising through inactivity is not a risk because we can predict that it will happen. This would be an issue.

Worries are not risks. A worry is something that might happen but the likelihood is so remote that we cannot take any preventative or avoidance actions.

“Widespread disruption from whatever cause” is too broad to assess for impact on ICAEW and it is not a well-defined risk.

Risk management and risk reporting

Risk management process



Define objectives and priorities

This is completed as part of the strategic and operational planning processes.

Identify risks

A risk is normally directly related to a core activity of the organisation and/or a business objective. It's easiest to think about and identify risks when operational activities and objectives are being defined and agreed, ie, during the operational planning process or when setting out the objectives for a project. Risks can, and should, be identified and acted upon at any time.

¹ This is taken from the definition of risk of the Office of Government Commerce in their publication: *Management of Risk: Guidance for Practitioners (TSO 2007)*

Identifying risk begins with a clear understanding of the ICAEW strategic activities and objectives, and department objectives. For each activity and objective, we can then consider what might prevent us from achieving our goals. These are the risks.

In most cases, this is an intuitive process and part of planning and management of any activity. For risk reporting, these risks need to be formally recorded so that they can be reported and monitored.

Risks could come from many sources. We have grouped some risk sources under the strategic goals, but these are not the only sources of risk:

Reputation and influence

The regulatory environment: risks that affect our ability to influence and respond to UK, European and global agendas.

The economic environment: risks that affect our ability to promote the work of ICAEW, members, firms and businesses.

Risks to building our international presence and reputation, including building key relationships.

Service by and for our members

Risks that affect our ability to grow our membership base, increase awareness of the benefits of membership and evolve our brand.

Risks that affect our ability to build relationships with our members.

Risks that undermine our commitment to a sustainable global profession.

Risks that affect our culture, reducing our ability to be truly international.

Risks that affect the infrastructure required to support our strategy.

Portfolio of qualifications

Risks that affect our portfolio of qualifications and services, their fitness for purpose, their international reputation and our ability to explore and tap into new markets.

Keep the focus of the risk assessment at the right level. If you try to cover too much detail you will be swamped with risks and unable to deal with them.

Assess priority

Each risk is assessed for its impact and likelihood. This will enable us to determine whether it is a priority risk or not.

The assessment begins by specifically looking at the risk that remains after we have done all we can to mitigate it. The risk that remains is called residual risk.

We then consider the possibility of occurrence despite mitigating actions and the likely impact if it did occur.

Again, this would normally be an intuitive process – you would know immediately if a risk was high priority, but for risk reporting we need to be able to assess priority on a scale that can be compared between departments and between activities.

Even with this guidance, risk priority cannot be easily quantified. A significant amount of judgement is necessary. It is important that staff and management work together to ensure all the relevant risks are identified and prioritised as consistently as possible.

If you are not sure, then it is better to escalate the potential risk so that staff and management can work together to ensure all the relevant risks are identified and prioritised as consistently as possible.

Priority

The overall assessment, or priority, is based upon the combination of the impact and likelihood:

		Impact			
		1	2	3	4
Likelihood	5	Medium	High	High	High
	4	Low	Medium	High	High
	3	Low	Medium	Medium	High
	2	Low	Low	Medium	Medium
	1	Low	Low	Low	Medium

Impact

To assist in measuring impact, we have described the impact of each risk in the following categories, which relate to the ICAEW strategic objectives:

Reputation and influence	A risk that directly affects our position and reputation with the profession and our regulators around the world..
Service by and for our members	A risk that affects the services provided by our members. or A risk that affects the services we provide to our members.
Portfolio of qualifications	A risk that affects our qualifications.
Infrastructure	A risk that has a direct financial effect or that affects operations of ICAEW.

It is possible that a risk is categorised in more than one way. It's important to consider all risks and not feel constrained by these categories.

The following guidance is there to assist in assigning an impact rating to the risk. The impact banding is set in terms of the impact on ICAEW as a whole and we are focusing on the more significant risks.

	1 Minor	2 Significant	3 Major	4 Critical
Reputation and influence	Negative impact on our reputation and influence in a country outside of the UK or a contained area within the UK.	Significant negative impact on our reputation and ability to influence in another region outside the UK.	Major damage to UK reputation and influence. Negative national media, regulator or government attention for several days.	Critical damage to global reputation and influence. Sustained, negative media, regulator or government attention.
Service by and for our members	Minor damage to our brand, or the reputation of the profession, or more significant damage in a localised area. Damage to the member experience for a small group of members or students, or a minor degradation for all members.	Significant damage to our brand, or the reputation of the profession, in a region outside of the UK. Significant impact on member services affecting some members or significant degradation for majority of members.	Major damage to our brand, or the reputation of the profession, the UK or an equivalent region. Major impact on member services that negatively affects a large number of members.	Critical damage to our brand, or the reputation of the profession. Critical impact on member services in the long term leading to loss of major member firms or significant number of members.
Portfolio of qualifications	Damage to qualifications in specialist area or geographic region with limited take up.	Significant impact on qualifications affecting specialist area or geographic region or degradation to qualifications affecting all students.	Major damage to qualifications that affects the majority of students.	Critical impact on qualifications leading to significant loss of students.
Infrastructure	Financial loss of less than £250k. Minor disruption to operations for a short period.	Financial loss of up to £1m. Significant disruption to operations.	Financial loss of up to £2.5m Major disruption to operations across a number of areas.	Financial loss of £5m or more Critical disruption of operations affecting all areas or over a long period.

Likelihood

The likelihood of a risk occurring is defined as follows:

5 Almost certain	The event will occur in all but exceptional circumstances. 80% probability or more.
4 Probable	The event is expected to occur in most circumstances. 50% to 80% probability.
3 Possible	The event should occur at some time. 20% to 50% probability.
2 Unlikely	The event may occur at some time. 5% to 20% probability.
1 Rare	The event may occur at some time, but it would be exceptional. Up to 5% probability

Risk appetite

When reporting a risk we also need to determine whether the risk is being managed to an acceptable level or not. This is an assessment of whether the risk remaining, with all the controls and other risk management activity in place, is acceptable.

In some cases we are seeking to limit or eliminate risk. In other cases we are taking on a risk in order to achieve a goal that has a significant benefit. Risk management is not about avoiding risk, it's about being conscious of what you are doing.

Management must judge if a risk is acceptable. This will depend on the description of the risk, its priority and the management activity in place.

- If a risk is defined as high priority it is unlikely to be acceptable. Exceptionally a high priority risk can be acceptable if there are no possible additional remedial actions available to reduce the risk further. In this case a contingency plan may be necessary to manage the risk if it occurs.
- Medium priority risks may or may not be within tolerance – this depends on whether the risk requires immediate remedial action or not, or whether the risk is outweighed by the benefits
- If the risk is defined as low priority it will normally be acceptable.

Manage risks

Risks can be managed in many different ways. This activity can include specific controls, insurance, contingency planning, etc. but it's just as likely to be managed by what you consider to be normal activities.

When reporting a risk, it's important to describe this activity so that the reader understands what you do.

Current management activity means activity that is already in place. This may be on-going activity, eg, a monthly reconciliation, or something you do on a reactive basis, eg, implement a contingency plan.

If the risk is not within acceptable levels, you must provide details of the additional management activity necessary to reduce the risk further. This must be accompanied by a responsibility and due date (like an action plan).

Report

Medium and high priority risks must be documented as part of the following processes:

- **Operational planning:** When completing their operational plan, departments must consider risks that will affect their ability to achieve the key priorities for their department.

The response to these risks will be embedded in their operational activities, key priorities and budgets, but we also need the risks to be clearly specified to enable us to report them. With the operational plan guidelines, departments are provided with two templates to record these risks:

- The first contains the key risks to ICAEW as identified by the senior management team and they must describe how they contribute to the management of these risks.
- The second template is for the department to record the risks that they consider to be of significant priority to them.
- **Strategic priority reporting:** Following the approval of the operational plan, a quarterly update is provided in the strategic priorities report. This details progress made in achieving these key strategic objectives.

As part of the reporting, departments must include reference to risks. If there is any deviation from target, a specific comment on how you are going to achieve the overall target for the rest of the year is required. This is a form of early warning report.

- **Project approvals:** Within the standard template for approval of any projects by the Board, there is a section on risk. This includes all kinds of risk to the project and not just financial risks. This section must be completed for all project proposals that go to the Board for approval.

Once the project has been approved by the Board, the relevant director is responsible for completing a formal risk assessment and submitting this to the Executive Office by the end of the quarter.

- **Other:** Risk should also be considered as part of any other activity. Specifically, reports to the Board such as the quarterly reforecast and the monthly Executive Director reports should include significant changes in risk.

The risk register

The Executive Office will collate the risks reported in the above into a single risk register. The details required for each risk are:

- A description of the risk;
- The objective to which it relates;
- The priority of the risk;
- Current management activity. This can include:
 - Activity to change the likelihood of it occurring, including outsourcing to a third party who can provide more resilience;
 - Activity to change the impact when it does occur, including taking out insurance; and,
 - Acceptance of the risk as it is (ie, no action).
- Any additional future management activity planned, along with a target date for implementation (an action plan); and,
- The owner of the risk.

An example of a risk in the risk register is included below.

At least twice a year, the senior management team will review all of the risks on the register and, using the priorities assigned to each of these risks, identify those risks that are of priority to ICAEW as a whole (eg, key risks). This will include any risks where the residual risk is not within tolerance and risks that combine to create a significant risk to ICAEW.

The Executive Office will produce reports for the Board and Audit Committee on key risks to ICAEW.

Escalation procedures

When risks are defined as high priority they are highlighted and reported to the Board and Audit Committee. In addition, any risks identified as not within tolerance are reported to the Board and Audit Committee.

This will occur routinely twice a year – once following the operational plan update and then again mid-year – or more frequently should circumstances demand.

Any low priority risks are not reported outside of the department.

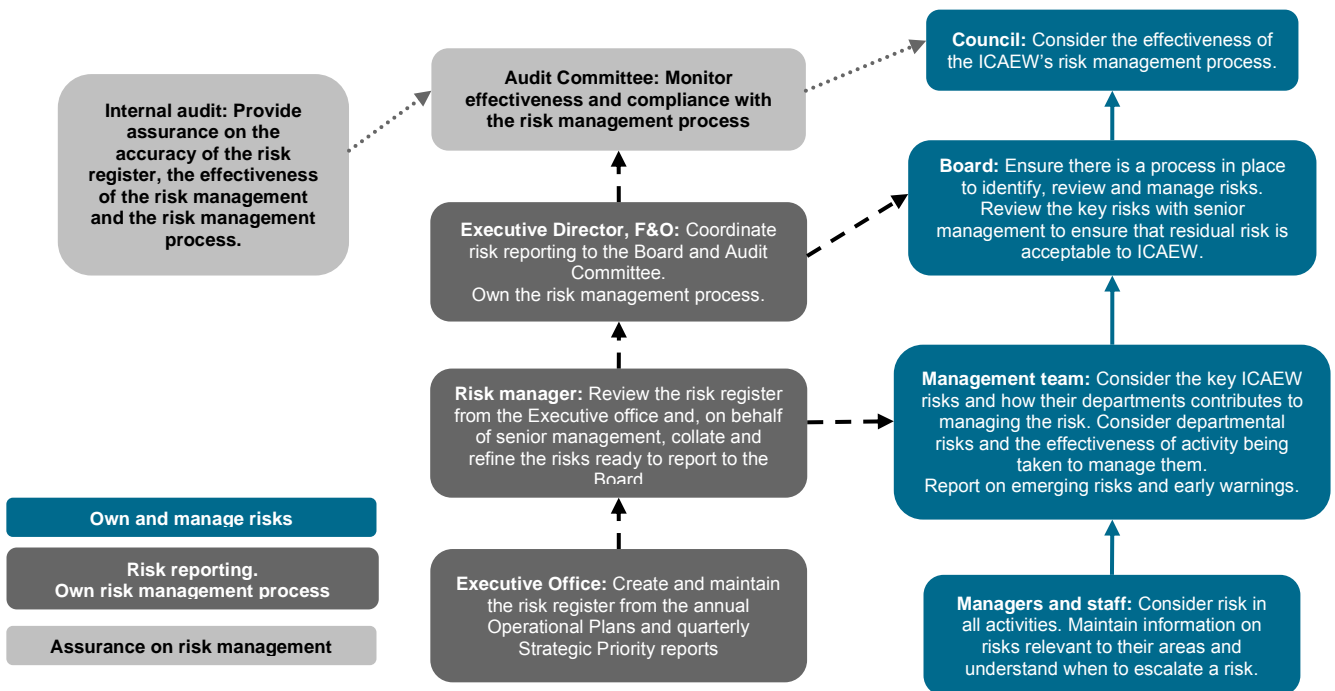
Monitor

Internal Audit monitor whether the process is effective through regular reviews of the risk management process and the risk register reports. The results of these audits are reported to the Audit Committee.

Internal audit also report on the completeness of the risk register through their regular internal audit programme.

Roles and responsibilities

Everyone at ICAEW has a responsibility for risk management:



Risk reporting is the responsibility of the Executive Office and the Executive Director, Finance and Operations.

The Executive Director, Finance and Operations, will present the risk register to the Audit Committee and Board following agreement with the Management Team.

The Executive Office, with support from the Management and Finance Information team, will collate the risks reported in the operational plans, strategic reports and monthly Executive Director reports into a risk register. The risk register will be updated twice a year using these source documents.

The Risk Manager will actively support departments to apply this policy. This will include:

- Providing training and advice
- Reviewing the risks reported and challenging them when they do not meet this policy

- Considering any gaps in the risk register – looking for “left field” risks or areas of risk that have been omitted or duplicated.

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Author	Robin Fieth, Executive Director, Finance and Operations
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THE RISK REGISTER

Ref	Risk	Objective/ Strategic Priority	Priority	Current risk management activity	Owner	Additional risk management activity planned	Responsibility and target date
	<i>[Description of the risk and its potential effect on ICAEW]</i>	<i>[The department objective or strategic priority to which this risk relates]</i>	<i>[High, medium or low]</i>	<i>[Current activity in place to manage the risk. May include internal controls, contingency plans, etc.]</i>	<i>[Person responsible for managing the risk]</i>	<i>[If the risk is not at an acceptable level, what additional risk management activity is planned?]</i>	<i>[Responsibility and date to implement additional risk management activity]</i>
	The European Commission review of the future of audit and competition and choice in the audit market results in a failure by ICAEW (a) to influence the outcome to demonstrate our relevant and achieve our policy goals as a professional body and/or (b) to reconcile divergent views among members and member firms and/or (c) to reconcile these views with our public interest role, resulting in a loss of confidence in ICAEW's ability to address key professional issues and to represent the profession adequately to key stakeholders.	The regulatory and legislative environment	High	Communication around ICAEW response to Green paper. Programme of engagement with EU officials. Ongoing liaison with major firms including through PRG and ECG. Proactive projects to contribute to policy making particularly through faculties. Audit Quality Forum and joint working with Financial Reporting Council.	ED TSD	None	



HUMAN RESOURCES (EXTRACT FROM STAFF INTRANET)

The policies, procedures and forms on this page are of an 'HR' or 'personnel' nature, they are not necessarily 'owned' by the Human Resources department

It is important to note that our policies and procedures have been updated in line with current legislation and ICAEW governance. As some of these policies form part of **your own terms and conditions of employment** you should ensure that you take the opportunity to review them.

Policies which form part of your contractual arrangements include

- Attendance
- Contractual core benefits
- Leaving the Institute
- Overtime
- Remuneration
- Secondary employment
- Sickness
-

You can view or download each 'human resources' policy, procedure and form from these drop-downs:

Ad hoc homeworking
 Adoption leave
 Alcohol and substance abuse
 Anti-fraud and bribery
 Attendance and absence
 Bullying and harassment
 Business conduct
 Capability
 Central Milton Keynes parking permit application
 Choice Benefits
 Contractual core benefits
 Corporate gifts and hospitality
 Discipline
 Delivering Shared Ambition - end of year review for non-UK based staff
 Dress and conduct
 Equal opportunities and diversity
 Eyecare vouchers
 Flexible working
 Grievance
 Health and safety
 Homeworking
 Information security
 Internal promotions and transfers
 Job sharing
 Job titles
 Leaving ICAEW
 Long service and gifts
 Maternity
 Mentoring

No smoking
Overtime
Parent
Paternity
Pay
Performance management and reward
Promotion and transfer
Recognition
Recruitment, induction and probation
Redundancy
Regular home working
Regular home working - additional responsibilities
Remuneration
Retention of personal information
Sabbaticals
Season ticket loans
Secondary employment
Sickness
Staff introduction scheme
Sustainability
Time off for dependants
Training and development
Whistleblowing
Work Experience and Internship

ACA ENTRY ROUTES

Effective from 1st January, 2010.

ICAEW will accept the following qualifications as meeting its educational requirements for entry into a minimum period of approved training agreed within the limits set out in regulations 3 and 4 of the **ACA Student Regulations**.

Entry routes

Academic Qualifications

UK or Irish graduate awards

Any recognised degree awarded by a UK or Irish university or college

NVQ/SVQ Level 4 awards

NVQ level 4 qualifications including BTEC Higher National Certificates or Diplomas

NVQ/SVQ Level 3 awards

NVQ Level 3 qualifications including BTEC National Certificates and Diplomas

GCSEs and A levels

2 A level passes plus 3 GCSE passes at grades A-C

2 Vocational A levels or 1 double award plus 3 GCSE passes at grades A-C or one GNVQ intermediate award or BTEC first diploma (merit)

Scottish Qualification Certificate

3 higher grades and 2 standard grades or equivalent

Irish School Leaving Certificate

6 passes with at least 3 at higher grade

European/ International Baccalaureate

Overseas Academic Qualifications

Graduate Awards

Any degree from a recognised university which is comparable to a UK Bachelors degree

School leaving qualifications

Any award which is comparable to our expectations for GCSE and A level entry requirements.

See www.ucas.ac.uk for a list of overseas school leaving qualifications and their equivalence

Professional Accountancy Qualifications

Certificate in Finance, Accounting and Business (ICAEW)

Member of AAT

Student of AAT who has achieved NVQ Level 3 Intermediate Stage

Member of ACCA, CIMA or CIPFA

Student of ACCA, CIMA, CIPFA, CAI* or ICAS* who has sat and passed all papers of every examination stage of the body concerned, up to and including the following examinations;

ACCA Part One

CIMA Foundation

CIPFA Foundation

ICAI Professional Examination II

ICAS Test of Competence

*CAI or ICAS Members are eligible to apply for Reciprocal Membership of ICAEW under clause 11 of the Supplemental Royal Charter. CAI or ICAS students will normally be allowed, on prior application to ICAEW, to count a proportion of their service under an CAI or ICAS Training Agreement as approved training under an ICAEW Authorised Training Employer.
Pass in a recognised Accountancy Foundation Course

Overseas accountancy bodies

Member or student who has passed all the examinations required for membership of ICAEWs of Chartered Accountants of Bangladesh, Ghana, India, Nigeria, Pakistan, Sri Lanka or Certified Public Accountants (USA), Australia, China and Malaysia

Student who has passed all the examinations, required for membership of the Institute of Chartered Accountants in Australia, the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants of New Zealand, the South African Institute of Chartered Accountants or the Institute of Chartered Accountants of Zimbabwe.

Student who has passed all the examinations required for membership of professional accountancy bodies recognised under the European Union's Directive 2005/36/EC or Directive 2006/43/EC.

Note: Members of the:

- Institute of Chartered Accountants in Australia (ICAA),
- Canadian Institute of Chartered Accountants (CICA)
- Institute of Chartered Accountants of New Zealand (NZICA)
- Institute of Chartered Accountants of Zimbabwe (ICAZ)
- South African Institute of Chartered Accountants (SAICA)

are eligible to apply for reciprocal membership under clause 12 of the Supplemental Royal Charter and regulation 45 of the **ACA Student Regulations**. Similar arrangements apply to Members of professional accountancy bodies recognised under the European Union's Directive 2005/36/EC or Directive 2006/43/EC.

Other professional and vocational qualifications

Associate of the:

- Association of Business Executives (AMABE)
- Association of Cost and Executive Accountants (ACEA)
- Association of International Accountants (AAIA)
- Association of Taxation Technicians (ATT)
- Chartered Institute of Bankers (ACIB)
- Chartered Insurance Institute (ACII)
- Chartered Institute of Personnel and Development (AssocCIPD)
- Chartered Institute of Taxation (CTA)
- Faculty of Business Administrators of the Corporation of Executives & Administrators (AFBA)
- Institute of Actuaries (AIA)
- Institute of Chartered Secretaries and Administrators (ACIS)
- Institute of Commercial Management (AMInstCM)
- Institute of Financial Accountants (AFA)
- Institute of Physics (AIP)
- Library Association (ALA)
- Institute of Medical Laboratory Sciences (AIMLS)
- Royal Institution of Chartered Surveyors (ARICS)

Barrister at Law, Solicitor

Chartered Engineer

Licentiate or Graduate of the Royal Society of Chemistry (LRSC/GRSC)

Member of Hotel, Catering and Institutional Management Association (MHCIMA)
Mature Entrants

Persons over 25 years of age without qualifications as listed above but with at least 7 years acceptable professional accountancy experience may be considered on individual application to ICAEW.

Qualifications not listed above (Regulation 1)

Other qualifications that match A level standard may be considered on individual application to ICAEW.

ACA STUDENT REGULATIONS

1. To be eligible to enter a training agreement, a candidate shall meet one of the minimum educational standards set out in the ACA entry routes.
2. Exceptionally the Committee may, at its discretion, and where necessary with the approval of the Financial Reporting Council, accept qualifications or a combination of qualifications or experience other than those given in the ACA entry routes as satisfying the requirement for registering their approved training.

Approved training

3. A candidate for admission to membership pursuant to clause 5 of the Supplemental Charter shall complete a period of approved training under a training agreement as follows:
 - a) of not less than three years; or
 - b) of not less than two years if the candidate is a member of an accountancy body which is a member of CCAB or other body as approved by the Committee.
4. The period of approved training referred to in regulation 3 may be of more than five years if the student is training under a strategic degree or other appropriate programme offered in partnership with an ICAEW Partner in Learning
5. The period of approved training to be completed by the individual candidate shall be determined in accordance with regulation 3 by agreement between the candidate and the Authorised Training Employer which is to provide the approved training.
6. The Committee may exercise its discretion:
 - a) in reducing the length of approved training required for membership where applicants fail to meet the requirement in regulation 3. Cases will only be considered where:
 - i. the shortfall is minimal
 - ii. the Technical Work Experience requirement has been met; and
 - iii. the reason for not meeting the full requirement is for circumstances beyond the control of the provisional member.
 - b) to waive the requirement for a period of approved training in order to qualify for membership.
7. Approved training must be:
 - a) obtained at an Authorised Training Employer or such other employer as the Committee shall approve;
 - b) provided to the standards set out in the Training Standards;
 - c) comprised of work of an appropriate professional level commensurate with the status of trainee chartered accountant.

8. Approved training may be undertaken on a part-time basis at the discretion of the Committee and subject to an appropriate extension to the period of approved training and to such adjustment to the period of the provisional member's examination eligibility as the Committee may decide.
9. During approved training a provisional member shall be provided with a period of suitable Technical Work Experience in areas of accountancy, including practical instruction as defined from time to time by the Committee, of not less than:
 - a) 300 days for a provisional member required to complete less than three years of approved training; or
 - b) 450 days for a provisional member required to complete three or more years of approved training.
10. To satisfy the requirements of regulation 9 a provisional member shall count such approved training and Technical Work Experience as is provided by:
 - a) the Authorised Training Employer, provided such experience is on the business of such employer;
 - b) such other organisation as the Committee in its absolute discretion, shall approve;
 - c) subject to sub-paragraph (b) of this regulation, secondment to such other organisation as the Qualified Person Responsible for Training shall approve in accordance with such conditions as the Committee shall from time-to-time decide.
11. The provisions of regulations 9 and 10 may be waived in such circumstances as the Committee in its absolute discretion considers to be acceptable.
12. The required approved training and Technical Work Experience may be gained on secondment up to a maximum of:
 - a) 50% within an environment approved by ICAEW to train provisional members.
 - b) 33% within an environment not approved by ICAEW to train provisional members where the Technical Work Experience achieved will not be relied upon to support an application for the audit qualification purposes.
13. Approved training shall also include, as applicable:
 - a) any period of study leave;
 - b) any period of absence for the purpose of sitting an examination prescribed by ICAEW;
 - c) standard statutory and non-statutory holidays of up to 35 days per annum;
 - d) absence due to illness not exceeding four consecutive weeks in a year;
 - e) up to 10 days of 'Keeping in Touch' days during a period of maternity leave, with the consent of the Authorised Training Employer;
 - f) any other period of absence not exceeding four consecutive weeks in a year.

14. Should the minimum period of approved training required under regulation 9 not be attained, the period of approved training shall be correspondingly extended, save that the Committee may, in its absolute discretion, waive this regulation in such circumstances as it considers acceptable.
15. Provisional members shall maintain records of approved training including IPD logs and evidence of Technical Work Experience in such form as may be decided from time to time by the Committee.
16. Members shall keep all records of approved training including copies of IPD logs and evidence of Technical Work Experience for at least three years following admission to membership. These records must be made available to representatives of ICAEW when required within 15 business days of notification or as prescribed by the Committee.
17. Authorised Training Employers shall ensure that such records are maintained during approved training and made available to representatives of ICAEW when required.
18. Authorised Training Employers shall also make available any other such evidence required for the Authorised Training Employer review including:
 - a) Time logs;
 - b) Employment contract (where applicable); and
 - c) IPD/CPD/STE records.
19. A provisional member shall not engage in public practice unless the provisional member:
 - a) is a member of an accountancy body which is a member of the CCAB or is a member of an approved international accountancy body or the Chartered Institute of Taxation or the Association of Accounting Technicians; and
 - b) is authorised to engage in public practice by the said accountancy body; and
 - c) has obtained the consent of the Qualified Person Responsible for Training, if applicable.

Student registration

20. Following the execution of a provisional member's training agreement, the Authorised Training Employer shall promptly apply to ICAEW to register such provisional member and shall provide such evidence of the provisional member's educational qualifications and other information as the Committee may require.
21. Provisional members must declare to ICAEW at registration if they have a criminal conviction, bankruptcy order or IVA, have been disqualified as a company director, have failed to satisfy a judgement debt, hold an adverse finding by any professional body or regulator or have been involved in any other activity that brings into question their fitness and propriety.

22. Independent students shall similarly apply to ICAEW to be registered and shall in addition pay annually such fees (if any) as the Committee may from time-to-time prescribe and shall provide such evidence of the educational qualifications and other information as the Committee may require.
23. The Committee may, in its absolute discretion, refuse to register or to re-register any person as a provisional member or as an independent student.
24. The registration of a provisional member shall be withdrawn, or shall be deemed to have been withdrawn:
- a) on the date on which the training agreement or period of approved training was suspended under regulation 18(a) of the Authorised Training Employer regulations or cancelled under regulation 20(c) of the Authorised Training Employer regulations; or
 - b) with effect from the date of any bankruptcy order made against the provisional member or any other declaration as in regulation 21; or
 - c) on such other date and in such other circumstances as the Committee, in its absolute discretion, may decide.

and the provisional member shall thereafter cease to be a provisional member as defined in these regulations.

Credit for prior work experience

25. A provisional member may be awarded Credit for Prior Work Experience for relevant practical experience undertaken prior to the date that he or she becomes eligible to register their approved training provided:
- a) The period of work experience was gained within the 24 months immediately preceding the registration of the provisional member;
 - b) The application is made in the format prescribed by the Committee;
 - c) The experience was gained within an Authorised Training Employer or such other environment as may from time to time be accepted by the Committee and/or the Financial Reporting Council.
26. The Credit for Prior Work Experience approved by the Committee must:
- a) be a minimum of three months;
 - b) include at least 65 days of Technical Work Experience;
 - c) not exceed
 - i. 12 months for provisional members entering into a training agreement for 36 or more months of approved training; or
 - ii. eight months for provisional member entering into a training agreement for 24 to 36 months of approved training.

27. The Committee in exceptional circumstances may, in its absolute discretion, vary or waive the requirements in 24 and 25.

Credit for prior learning

28. The Committee shall in response to an acceptable application award credits to provisional members and other individuals for modules within the Professional Stage at its discretion and exceptionally for modules within the Advanced Stage with the agreement of the Financial Reporting Council. Such credits shall normally be obtained through one or other or a combination of:

- a) an ICAEW accredited learning programme provided by tutors, Authorised Training Employers or other suppliers;
- b) award of Credit for Prior Learning based on prior academic or vocational study as the Committee may approve;
- c) membership of an approved accountancy body.

29. Applications for Credit for Prior Learning shall be:

- a) made in the format prescribed by the Committee;
- b) awarded in accordance with regulation 28;
- c) accompanied by such fee(s) as determined by the Committee.

30. A provisional member will cease to be eligible to obtain Credit for Prior Learning at the point at which he ceases to be eligible to sit ICAEW examinations, as defined under regulation 33.

31. Credit for Prior Learning will normally only be awarded within five years of the award of the academic or professional qualification against which credit is sought.

32. The Committee may vary or waive the requirements prescribed under regulation 31 where the qualification cited as the basis for credit is membership of the Association of Accounting Technicians or membership of a professional body that is a full member of the International Federation of Accountants with a CPD policy that is compliant with its International Education Standard 7.

Professional assessment

Details are found in ACA assessment regulations.

33. To be eligible to sit ICAEW examinations a candidate must have satisfied:

- a) the requirement for entry into approved training in accordance with regulations 1 or 2
- b) the examination eligibility criteria prescribed by the Committee;
- c) the ACA assessment regulations as prescribed by the Committee;

d) such other requirements as the Committee may from time to time prescribe.

34. To be eligible to apply to sit the aptitude test referred to in regulation 49(a), a candidate must:

a) be:

- i. a member of an accountancy body approved by the Council pursuant to clause 12(a) of the Supplemental Charter; or
- ii. authorised as an accountant by an appropriate authority pursuant to clause 12(a) of the Supplemental Charter; or
- iii. an auditor or accountant to whom the European Union's Directive 2005/36/EC or Directive 2006/43/EC applies pursuant to clause 12(b) of the Supplemental Charter; and

b) declare if they have a criminal conviction, bankruptcy order or IVA, have been disqualified as a company director, failed to satisfy a judgement debt, hold an adverse finding by any professional body or regulator or have been involved in any other activity that brings into question their fitness and propriety.

c) satisfy such other requirements, as the Committee shall from time to time prescribe.

35. The Committee may in exceptional circumstances vary or waive the requirements prescribed under regulation 34.

36. The Committee may reject a candidate's application to sit an examination or test, or may refuse the candidate's admission to an examination centre as the result of:

a) the candidate's ineligibility for such examination or test, including ineligibility by reason of an order by the Disciplinary Committee under Disciplinary Bye-laws 22.7 (b)(c)(d) or (e); or

b) the Committee upholding, after investigation, a complaint of the candidate's misconduct or involvement in an irregularity at a previous examination or test; or

c) any other circumstances which the Committee in its absolute discretion may decide would justify such rejection or refusal.

37. Candidates with a disability as defined under the Equality Act 2010 will be provided with reasonable adjustment to enable access to the assessments.

38. The Committee shall instruct ICAEW staff to send all candidates notice of their results in the examination or test but:

a) the Committee may withhold such notice for any of the reasons set out in sub-paragraphs (a), (b) and (c) of regulation 36, save that notice may also be withheld pending the result of the investigation referred to in sub-paragraph (b) of that regulation; and

b) the Committee shall withhold such notice:

- i. pending the result of the referral of a complaint against the candidate to the Investigation or Disciplinary Committees;
 - ii. when a candidate is declared unfit for membership by the Disciplinary Committee under Disciplinary Bye-law 22.7(a).
39. Provisional member examination results shall be released to the Authorised Training Employer unless a written notice has been received by ICAEW prior to the examination asking for the results not to be released to the Authorised Training Employer.
40. The Committee shall be under no obligation to enter into correspondence with third parties regarding examination results.

Re- entry

41. Students barred from completing the ACA under ACA assessment regulation 4 may be considered by the Committee for re- entry for the ACA if:
 - a) they can provide evidence they have gained an additional relevant qualification or professional development since the cancellation of their prior ICAEW registration;
 - b) they continue to meet the student registration requirements within these regulations.
42. An applicant wishing to re- enter under regulation 41 must:
 - a) register as a new student (see regulations 20 - 24);
 - b) re-take any examination(s) previously passed which is not eligible for Credit for Prior Learning under regulation 43;
 - c) undertake a further period of approved training which meets the requirements for newly registered students (see regulations 3 - 19);
 - d) pay such fee(s) as required under regulation 42(a).
43. Students registering under regulation 41 will not be eligible for any Credit for Prior Learning or Credit for Prior Work Experience based on qualifications or experience gained before they registered for the qualification or professional development cited in regulation 41(a).
44. Students registering under regulation 42(a) will be eligible for a further four attempts at each Professional Stage assessment. There is no restriction on the number of attempts at the Advanced Stage assessment.

Admission to membership

45. An applicant for membership pursuant to clause 5 of the Supplemental Charter is entitled to be admitted as an Associate of ICAEW only if the Council is satisfied that the applicant:

- a) has successfully completed a course in preparation for and has passed the ICAEW examinations;
- b) has passed or obtained required credits for:
 - i. knowledge and application Professional Stage examinations;
 - ii. Advanced Stage examinations (if relevant);
- d) has successfully completed or been credited with a period of approved training in accordance with regulations 3 and 9;
- e) has completed appropriate Initial Professional Development and associated declarations;
- f) has completed appropriate Structured Training in Ethics and associated declarations;
- g) has appropriately recorded evidence of Technical Work Experience in the format prescribed by the Committee;
- h) is fit for membership. Provisional members are required to declare if they have a criminal conviction, bankruptcy order or IVA, have failed to satisfy a judgement debt, hold an adverse finding by any professional body or regulator or have been involved in any other activity that brings into question their fitness and propriety;
- i) has paid the requisite admission fee(s) and subscription;
- j) has submitted to ICAEW all of the required documentation set out in sub-paragraphs (a) to (h) of this regulation, signed and authorised by the QPRT or Deputy QPRT.

46. An application under regulation 45 shall be made not more than 12 months after the date upon which the provisional member became eligible for membership.

47. The Committee may, in its absolute discretion, extend the said period of 12 months within the provisions of regulation 46 in respect of any applicant:

- a) if the Committee considers that the circumstances justify such an extension; and
- b) on payment by the applicant of such delayed admission surcharge (if any) as the Committee may in its absolute discretion decide in such case.

48. An applicant for membership pursuant to clause 12 of the Supplemental Charter shall be entitled to be admitted an Associate of ICAEW only if the Council is satisfied that the applicant:

- a) is a qualified member of one of the following accountancy bodies:
 - i. the Institute of Chartered Accountants in Australia;
 - ii. the Canadian Institute of Chartered Accountants;
 - iii. the Institute of Chartered Accountants of New Zealand;
 - iv. the South African Institute of Chartered Accountants;
 - v. the Institute of Chartered Accountants of Zimbabwe;
 - vi. the Hong Kong Institute of Certified Public Accountants; or
- b) holds a diploma in accountancy or audit to which Directive 2005/36/EC or Directive 2006/43/EC applies;

49. An applicant for membership under regulation 48 must:
- a) successfully complete an aptitude test if relevant;
 - b) provide evidence which satisfies the Committee that the applicant is fit for membership;
 - c) maintain home body membership
 - d) pay the requisite admission fee and subscription.
50. An application for admission to membership shall be made in such form as the Committee may from time to time prescribe.
51. An application made under regulation 45 shall include the following certificates provided by the Qualified Person Responsible for Training, or an ICAEW approved Deputy QPRT who satisfies the requirements of regulations 2 of the Authorised Training Employer regulations:
- a) in respect of the practical training and the range and depth of work experience provided by the Authorised Training Employer, that the applicant is qualified for admission; and
 - b) that the applicant is fit for membership.
52. An application made under regulation 45 shall be accompanied by such evidence from or on behalf of the Qualified Person Responsible for Training as the Committee may require in support of the certificate given in regulation 51(a).
53. A Qualified Person Responsible for Training or ICAEW approved Deputy QPRT who feels unable to provide either or both of the certificates required under regulation 51 of these regulations shall inform the Committee of the reasons for withholding such certificate or certificates.
54. Admission to membership may take effect on any day of the month, following acceptance of an application by the Committee.

Powers of variation

55. Subject where relevant to compliance with the Companies Act 2006 and appropriate consultation with the Financial Reporting Council, the Committee shall have the power to vary or waive the above regulations.



PROFESSIONAL INDEMNITY INSURANCE REGULATIONS AND GUIDANCE

Effective from 1st Jan 2011.

Introduction

Changes to the professional indemnity insurance regulations

The PII regulations were originally issued in August 1991. These have now been revised to improve the clarity of the wording and to make other improvements and changes.

In deciding the format for the revised regulations an aim was to make them 'user-friendly'. This has been dealt with in a number of ways. The regulations are now divided into chapters and each covers a specific area. Within the limits of regulations which have a legal standing, the wording is in 'plain English'.

Guidance is now included with the regulations, or if too long, it is in chapter 6. The regulations are in a grey frame to distinguish them from the guidance. Where defined terms are used in the regulations they are in dashed underline. The guidance is shown in plain type throughout.

Members and others who need to comply with the regulations

Professional indemnity insurance is compulsory for all members of ICAEW who have a practising certificate and are engaged in public practice, regardless of the amount of practice income.

Council's statement on public practice is at icaew.com/regulations. This sets out a definition of public practice. If a member remains in doubt as to whether his activities amount to engaging in public practice, he should contact the Ethics Advisory Services on +44 (0)1908 248 025 and give all the facts of his circumstances.

Similarly the regulations for audit, investment business and insolvency require those so regulated to meet the requirements of the PII regulations.

Responsibility of members

The PII regulations apply to individual members but in practical terms professional indemnity insurance usually covers their practising entity - for example their partnership or their sole practice. For those members in practice with non-members these PII regulations effectively apply to the entire mixed practice. For example, in a mixed partnership, the principle of joint and several liability will make the member partner jointly liable for the actions of his non-member partners. Therefore the insurance should cover the whole practice, not just the member partner.

Members who are responsible for making their own or their firm's professional indemnity insurance arrangements should be sure that those arrangements comply with the PII regulations. Many members are in firms and the professional indemnity insurance arrangements are handled by someone else on their behalf. This does not affect the responsibility of individual members to ensure they meet the PII regulations.

Level of insurance cover

Chapter 3 details the requirements for the minimum level of cover you must obtain. When deciding on how to achieve that level of cover you should consider the following:

- professional indemnity insurance - your broker will be able to help you to obtain cover; and

- the amount of excess to be borne by the insured - this level should only be decided after consideration of both the firm's and the principals' resources, including the borrowing capacity of each. Consider the past incidence of claims and your ability to meet multiple losses.

This is only the minimum amount of cover and you should always consider if this is adequate for your firm.

Inability to obtain insurance

If you cannot obtain cover which satisfies the PII regulations you may be able to enter the assigned risks pool for a period of time until cover is obtained in the market. Chapter 4 provides details.

Who can provide insurance

You must obtain the minimum level of cover, subject to any allowable excess, from a participating insurer and appendix A explains who these are.

Certificate of compliance

Each year ICAEW requires confirmation of compliance with the PII regulations. All those covered by these regulations are asked to complete and return a certificate of compliance, which is part of the Practice Assurance annual return. ICAEW may check with brokers or insurers that the information is correct.

For many members the confirmation will be sent to their firm, and will cover all the members who are principals in the firm.

Further advice

It is possible that the minimum level of cover, while complying with the PII regulations, will not be high enough to ensure that all claims made against you will be covered. You should consider carefully the level of cover which is right for you or your firm. To assist you in this, chapter 6 includes answers to the queries which are most often raised by members and some general guidance notes.

Your broker will be able to help you if you have any further queries. If you would like to talk to someone at ICAEW please telephone:

- PII helpline +44 (0)1908 546 336

Other useful telephone numbers are:

- Advisory Services +44 (0)1908 248 250
- Assigned risk pool manager +44 (0)1603 207 652*

*Members should refer to chapter 4 before contacting the assigned risk pool manager.

Non-practising members

Some members hold a practising certificate even though they are not engaged in public practice. There is no requirement for these members to have professional indemnity insurance. Such members are required to confirm annually that they are still not practising. If any practice activity is contemplated, then such members should obtain professional indemnity insurance, in accordance with these regulations, before the work commences. The Members' Registrar should also be informed that practice has commenced, together with the name of the firm that the member intends to practise under. The special situation of employees who hold practising certificates under the Audit Regulations and Guidance or Insolvency Licensing Regulations is dealt with at regulation 5.3.

1 General

Authority and commencement

- 1.1. These [regulations](#) are issued by the authority of Council.
- 1.2. The [regulations](#) come into effect on 1 November 1998.
- 1.3. The Professional Indemnity Insurance Regulations which came into effect on 1 August 1991 cease to have effect on 1 November 1998. Except that any insurance held under regulation 12 of those [regulations](#) shall be deemed to meet the requirements of regulation 3.1b of these regulations until the date of its next renewal after 1 January 1999.

Interpretation

- 1.4. Words and expressions have the meaning given by the Interpretation Act 1978 unless defined in these [regulations](#). The definitions in these [regulations](#) take precedence.
- 1.5. In these [regulations](#) words importing the singular number include the plural number and vice versa. Words importing the neuter gender include both the masculine and feminine. Headings do not affect the interpretation of these [regulations](#). The [regulations](#) will be governed by, and interpreted according to, English law.
- 1.6. Any reference to legislation, bye-laws, regulations, schemes or other documents will apply to any re-enactment, re-issue or amendment.

Definition of terms

- 1.7. In these [regulations](#) the following words have the following meanings.

assigned risks pool	The arrangements by which firms who are otherwise unable to obtain professional indemnity insurance may do so for a limited period and to which all participating insurers subscribe.
assigned risks pool manager	The broking firm which advises ICAEW and which manages the assigned risks pool.
authorised firm	A sole practitioner, a partnership or a body corporate authorised under ICAEW 's Investment Business Regulations.
authorised insurer	An insurer regulated by the Financial Services Authority in the United Kingdom , or by the Irish Financial Services Regulatory Authority in the Republic of Ireland, to carry on general insurance business in the United Kingdom or the Republic of Ireland respectively.
Bye-laws	The Bye-laws of ICAEW .
certificate of compliance	The certificate used by the Committee to monitor compliance with these regulations .
Committee	The Professional Indemnity Insurance Committee of ICAEW .

<u>Council</u>	The Council of <u>ICAEW</u> .
<u>firm</u>	<ul style="list-style-type: none"> • a <u>member</u> engaged in public practice as a sole practitioner or with others in a partnership or a body corporate; • an <u>authorised firm</u>; • a <u>licensed firm</u>; • a <u>registered auditor</u>; • an <u>insolvency practitioner</u>; or • an <u>insolvency affiliate</u>.
<u>gross fee income</u>	<p>All income in respect of work carried on in public practice, including:</p> <ul style="list-style-type: none"> • income for personal appointments in respect of work covered by professional indemnity insurance; • income from third parties as commissions or brokerage (whether or not offset against charges to a client) and; • income received in respect of work sub-contracted to others. <p>It does not include:</p> <ul style="list-style-type: none"> • the recovery of disbursements and expenses which do not form part of the chargeable fee for professional services rendered; • value added tax. <p>Guidance: Gross fee income must include the income in respect of work which the firm has subcontracted to others. This is unless the work is clearly shown as a disbursement in the invoice issued for the relevant work and the client knows that the firm is not taking professional responsibility for the work.</p>
<u>insolvency affiliate</u>	An individual granted affiliate status under <u>ICAEW</u> 's Insolvency Licensing Regulations.
<u>insolvency practitioner</u>	An individual licensed under <u>ICAEW</u> 's Insolvency Licensing Regulations.
<u>ICAEW</u>	The Institute of Chartered Accountants in England and Wales.
<u>Institutes</u>	<u>ICAEW</u> , the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland.
<u>Investigation and Discipline Scheme</u>	The scheme, or any predecessor or successor scheme, established under clause 1b(vii A) or clause 1b(viii A) of the Supplemental Royal Charter of 21 December 1948.
<u>Joint Advisory Panel</u>	The Joint Advisory Panel appointed under regulation 5.10.
<u>licensed firm</u>	a sole practitioner, a partnership or a body corporate licensed under <u>ICAEW</u> 's Designated Professional Body arrangements.
<u>member</u>	A member of <u>ICAEW</u> .

<u>minimum limit of indemnity</u>	The amount of insurance required each year under these <u>regulations</u> .
<u>participating insurer</u>	An <u>authorised insurer</u> who has agreed to the terms and conditions described in appendix A of these <u>regulations</u> .
<u>principal</u>	A sole practitioner, partner, director or member of a limited liability partnership, of a <u>firm</u> .
<u>practising certificate</u>	The certificate issued to a <u>member</u> by <u>ICAEW</u> authorising the <u>member</u> to engage in public practice.
<u>qualifying insurance</u>	<p>Insurance which:</p> <ul style="list-style-type: none"> • is underwritten by <u>participating insurers</u> (see appendix A); • includes retroactive cover for liabilities arising from work carried out in the previous six years, except for claims or potential claims known about at the time the insurance was first taken out; and • is underwritten in terms of the minimum wording approved by <u>ICAEW</u>. <p>Guidance: A policy which does not use the exact approved minimum wording must contain a difference in conditions endorsement in a form approved by ICAEW. The required cover may be provided by more than one insurance policy. Retroactive cover may be for a shorter period than six years if the member has only just started in practice. The guidance notes in chapter 6 explain this further.</p>
<u>registered auditor</u>	A sole practitioner, a partnership or a body corporate registered under <u>ICAEW</u> 's Audit Regulations.
<u>regulations</u>	These regulations as modified or amended.
<u>secretariat</u>	The people employed by <u>ICAEW</u> to carry out its functions.
<u>United Kingdom</u>	Includes the Channel Islands and the Isle of Man.

2 Scope and monitoring

This chapter explains who needs to take out professional indemnity insurance and how this is monitored. If you are about to start practising you should contact ICAEW, which will be able to provide any further information you need.

Scope

2.1. These [regulations](#) apply to:

- a [member](#) holding a [practising certificate](#) and resident in the [United Kingdom](#) or the Republic of Ireland;
- a [member](#) in public practice in the [United Kingdom](#) or the Republic of Ireland;
- an [authorised firm](#);
- a [licensed firm](#);
- a [registered auditor](#);
- an [insolvency practitioner](#); and
- an [insolvency affiliate](#).

The regulations governing post-qualification education and training require a member who has a practising certificate to meet the requirements of these PII regulations. This is regardless of the form of practice (that is as a sole practitioner, or as a principal in a partnership or a body corporate) or the amount of practice income. Similarly those regulated by the regulations for audit, investment business or insolvency have to meet the requirements of the PII regulations.

Members who hold a practising certificate, but who do not engage in public practice, do not need to have professional indemnity insurance.

A practising certificate is evidence of being in public practice but these PII regulations only apply to those members who are also resident, or in practice, in the United Kingdom or the Republic of Ireland. Other members who hold a practising certificate but who are resident elsewhere do not need insurance that meets the requirements of these regulations. If a member is in practice in another country then some form of insurance is recommended, but it is not mandatory. Under the regulations governing post-qualification education and training ICAEW has reserved the right to inspect the work of overseas members.

However, there is no geographical limit in the regulations for audit, investment business and insolvency.

Firms that are licensed by ICAEW under the Designated Professional Body arrangements and those authorised by the [Financial Services Authority](#) will need to consider the insurance requirements specified in the EU's Insurance Mediation Directive. This applies only if such firms undertake regulated activities relating to those contracts of insurance covered by the Directive. Further information is provided in the [Designated Professional Body Handbook](#) (see note 3 at the end of part 2 of the Handbook).

2.2. These [regulations](#) also apply to a [member](#) for a period of two years after ceasing to hold a practising certificate.

2.3. Those [members](#) who do not make their own professional indemnity insurance arrangements should ensure that the arrangements of their [firm](#) comply with these [regulations](#).

All members with practising certificates should satisfy themselves that they or their firm have suitable arrangements in place to comply with these regulations.

2.4. In deciding whether these [regulations](#) have been complied with the [Committee](#) will take into account any guidance issued from time-to-time, by or on behalf of [Council](#). In the event of any actual or apparent conflict between these [regulations](#) and such guidance, the wording of these [regulations](#) will apply.

Monitoring

- 2.5. Every [firm](#) is required to return a [certificate of compliance](#) with the [regulations](#) to [ICAEW](#) each year.
- 2.6. The Committee can require such further information and evidence as it may reasonably need from [members](#), [firms](#) and [participating insurers](#).

ICAEW sends a reminder letter and blank certificate (which is part of the practice assurance annual return) to all those covered by these regulations before the date on which the insurance is due for renewal. Individual principals in a firm will not receive separate certificates unless they are also in another firm on their own account. Members who hold a practising certificate but who are not engaged in public practice will not receive a certificate but will be required to declare annually that they are not engaged in public practice.

As soon as you have negotiated your new cover you should complete the certificate and return it to ICAEW. It is important that you comply with this requirement. If you have any problems completing the certificate, or if you experience any delay in renewing your cover, you will receive reminders from ICAEW and you should contact the practice insurance section to explain the reasons for the delay.

If you fail to complete the certificate, or to explain to ICAEW why you are unable to do so, the consequences may be serious. You may be in danger of losing your registered auditor status, investment business authorisation and/or insolvency practitioner status. Your eligibility to hold a practising certificate could also be in danger and you may also be liable to disciplinary action.

Cessation of practice

- 2.7. A [member](#) who ceases to be engaged in public practice in the [United Kingdom](#) or the Republic of Ireland must use his best endeavours to ensure that he is covered by arrangements which satisfy these [regulations](#) for at least two years from the date he ceased in public practice. The terms and extent of any cover must be equivalent to that provided by his [firm](#)'s previous qualifying insurance.
- 2.8. When a [firm](#) ceases the [members](#) in practice in that [firm](#) at the date of cessation shall ensure that there is in place appropriate cover to meet requirements of [regulation](#) 2.7 for at least 24 months following the cessation of the practice. Thereafter the [members](#) in practice in that [firm](#) shall use their best endeavours to ensure cover is in place to meet requirements of [regulation](#) 2.7 for a further four years. The terms and extent of the cover must be equivalent to that provided by the [firm](#)'s previous qualifying insurance.

It is extremely important that you secure 'run off' cover for your previous practice after you cease to practise. This is to cover you for claims for work done while in practice but arising after the practice ceased. Such cover is a requirement of these regulations and it is in your own interests, whether or not you think you might have a claim in future. If your practice has been taken over by someone else this cover may be effected by the new practice or by you.

You should maintain this cover for at least two years and at the end of that period you should carefully consider whether you need to continue cover. This will depend on whether you have had, or expect to have, any claims since you ceased practice. It is ICAEW's recommendation that you should maintain run off cover for at least six years.

A member who keeps a practising certificate after ceasing in public practice is required by these regulations to have run off cover in accordance with regulation 2.7.

There is further guidance in chapter 6 about what to do in the case of other practice changes.

3 Terms of cover

This chapter explains ICAEW's scheme of insurance and the level of cover you should have in place. Professional indemnity insurance works on a claims made basis. This means that the insurance will provide cover for claims first made or circumstances arising and notified to the insurers during the term of the current policy. This is irrespective of when the work concerned was carried out. It is therefore important that insurance remains in force to provide protection against any claims which may arise in the future for work done in the past.

It is most important that you check carefully the wording of your policy. This is so you understand:

- exactly how the insurance works;
- what is covered;
- on what terms; and
- subject to what terms, conditions and exclusions.

Remember that the terms of any additional policies that you obtain for levels of cover over and above the minimum levels required by these regulations may not necessarily be the same as the terms of the qualifying insurance offered by participating insurers.

Ability to meet claims

3.1. A firm must:

- take reasonable steps to meet claims arising from being in public practice; and
- arrange qualifying insurance which meets the limits in regulation 3.2.

As well as taking reasonable steps to meet any claims that do arise, a priority is to limit the risk of claims against you. The guidance in chapter 6 gives some examples of the matters you should consider. Regulation 2.1 details who is subject to these regulations.

Qualifying insurance

Qualifying insurance is a special type of insurance for those in public practice. This insurance can only be obtained from certain insurers who are known as 'participating insurers' for the purpose of these regulations. Further details of these insurers are in appendix A.

All participating insurers have agreed to provide cover under terms which match those of ICAEW's approved minimum wording. Those members taking out cover with a participating insurer can be certain that their policy meets the minimum requirements. These terms may be amended by insurers in an individual policy to include extensions of cover beyond the requirement of the approved minimum wording.

As an extra safeguard, ICAEW has asked those participating insurers which use a slightly different wording to include a 'difference in conditions' endorsement in their wording. In the event of a dispute between a policy holder and his insurer, the endorsement will ensure that ICAEW's minimum wording overrides that of the insurer where the insurer's wording is less favourable.

A current policy will primarily provide cover for past acts, whether or not cover was in place at the time of the act. Sometimes insurers may put a 'retroactive date' on the policy, limiting the period of cover for past acts. The date must be at least six years before the date of the current policy, or when the practice started if sooner.

The current text of the minimum policy wording and the difference in conditions endorsement may be obtained from ICAEW at icaew.com/pii.

Firms that are licensed by ICAEW under the Designated Professional Body arrangements and those authorised by the Financial Services Authority will need to consider the insurance requirements specified in the EU's Insurance Mediation Directive. This applies only if such firms undertake regulated activities relating to those contracts of insurance covered by the Directive. Further information is provided in the Designated Professional Body Handbook (see note 3 at the end of part 2 of the Handbook).

Minimum limit of indemnity

3.2. Except where [regulation 3.3](#) applies the [minimum limit of indemnity](#) must be £1.5 million for any one claim and in total.

This means that the insurance must pay a maximum of at least £1.5 million for a single claim or a number of claims totaling £1.5 million. It may be possible to obtain cover of £1.5 million for each and every claim, regardless of the number of claims made. Your cover up to the minimum limit of £1.5 million must be taken out with a participating insurer. Cover above that limit does not have to be with a participating insurer, nor does it need to comply with the minimum approved wording.

3.3. If the [gross fee income](#) of a [firm](#) is less than £600,000, the [minimum limit of indemnity](#) for any one claim and in total must be equal to two and a half times its [gross fee income](#), with a minimum of £100,000.

Once a firm's gross fee income exceeds £600,000, the two and a half times multiplier gives an answer of £1.5 million which is the maximum required by these regulations. However, firms should always consider if this is sufficient for their situation.

3.4. [Gross fee income](#) should be based on the accounting year of the [firm](#) which immediately precedes the start of the policy.

Gross fee income must include the income in respect of work which the firm has subcontracted to others. This is unless the work is clearly shown as a disbursement in the invoice issued for the relevant work and the client knows that the firm is not taking professional responsibility for the work.

The figure of gross fee income should be based on the most recently completed accounting year. If this is your first year in practice, you should give your broker an estimate of your gross fee income. However, if the most recently completed accounts are not for a year or are for a period ending some time previously to the policy renewal date then you may need to estimate the gross fee income figure to use. It is advisable not to decrease the amount of cover from that previously held until a completed set of accounts shows a decrease in gross fee income. This is because although the insurance is on a claims made basis, regardless of when the work was done, claims do arise from previous years and if turnover was greater in the past the possibility of claims may be higher.

3.5. The [minimum limit of indemnity](#) can include an excess provided that:

- for a sole practitioner the excess is not more than £30,000;
- for a partnership, the excess is not more than £30,000 multiplied by the number of [principals](#);
- for a body corporate, the excess is not more than the greater of:
 - £30,000; or
 - the total of the amounts accepted by the [principals](#) as a legally binding personal obligation (but excluding any amount over £30,000 accepted by any [principal](#)).

Although there is a minimum amount of insurance needed, part of this can be borne as an excess as in any other form of insurance. However, the above regulation sets a limit to the amount of the excess.

The minimum limit of indemnity may include a self insured element so long as it does not exceed the limits in these regulations. The limits are set out in full in the above regulation although the Committee does have the power (see regulation 5.3) to vary these in specific situations. However, the general rule is that the maximum should be £30,000 per principal.

3.6. If the Committee is satisfied that a group (however composed) of firms has shown that together they comply with these regulations, it is at the Committee's discretion to allow that group to be treated as a single entity (compound firm) for the purposes of these regulations.

The Committee can treat a 'group' of separate firms as a compound firm. Such a firm will usually comprise a number of associated firms which appoint one of their number to arrange insurance under one policy.

4 Inability to obtain cover

It is possible, for example if you have had a number of claims, that you may not be able to obtain cover. This chapter explains the provisions which will help you and what you need to do if you are refused cover in the insurance market with a participating insurer. The assigned risks pool is effectively an insurer of last resort and was set up to ensure that members are almost always able to comply with these regulations whatever their circumstances.

Every participating insurer has agreed to subscribe to the assigned risks pool. This can provide cover in an emergency and for up to two years, although premium levels are considerably higher than charged outside the assigned risks pool. The assigned risks pool manager (see introduction for telephone number) acts as coordinator between firms, participating insurers and ICAEW. If you wish to apply to enter the assigned risks pool you should telephone the assigned risks pool manager who will be able to help you and will provide the documents you need.

If you establish to the satisfaction of the Joint Advisory Panel (regulation 5.10) that you cannot obtain the professional indemnity insurance cover required by these regulations then you are eligible for admission to the assigned risks pool.

Reasons for entering the Assigned Risks Pool

- 4.1. The [Joint Advisory Panel](#) will permit an applicant to be insured in the [assigned risks pool](#) if:
- the applicant has evidence of declinature from [participating insurers](#) in a form satisfactory to the [Joint Advisory Panel](#);
 - the applicant is unable to obtain a quotation from any [participating insurer](#) other than a quotation which (in the opinion of the [Joint Advisory Panel](#)) amounts to constructive declinature. Prima facie evidence of constructive declinature will be:
 - the quotation of a premium which the applicant is unable to pay within six months from the commencement of the policy; or
 - the quotation of a premium which has such an effect on the applicant's financial security that it jeopardises its ability to carry on its business.or
 - where cover following cessation of public practice (see regulation 2.7 and 2.8) is not available from any [participating insurer](#).

You may apply for entry into the assigned risks pool if you or your firm cannot obtain cover to comply with these regulations from any participating insurer. Declinature and constructive declinature are insurance terms. Declinature means that you have been refused cover. Constructive declinature means that you have been offered cover but only at a premium which you cannot pay or which, if you did pay it, would put your practice at risk financially. If you wish to plead constructive declinature you must satisfy the Joint Advisory Panel, producing such evidence as the Panel requires that the premium quoted meets one or more of the conditions of regulation 4.1b.

Procedure for entering the assigned risks pool

- 4.2. Application for admission into the [assigned risks pool](#) must be made to the [assigned risks pool manager](#). Any application must include:
- evidence of declinature satisfactory to the [Joint Advisory Panel](#), or
 - a declaration by the applicant of the circumstances it considers to be evidence of constructive declinature. The [assigned risks pool manager](#) will refer the matter to the [Joint Advisory Panel](#), which will decide whether particular cases constitute constructive declinature and whether the [firm](#) can enter the [assigned risks pool](#).
- 4.3. An applicant will be given a short term admission to the [assigned risks pool](#) provided the applicant has signed the contract for entry, while other [participating insurers](#) are approached or while the [Joint Advisory Panel](#) decides whether there has been constructive declinature.

The Joint Advisory Panel has delegated the authority to approve evidence of declinature to the assigned risks pool manager.

It is possible to enter the assigned risks pool on a short term basis if your current insurers have declined to provide renewal terms and have not agreed to an extension of cover. Temporary cover for up to thirty days may be granted in the assigned risks pool and should provide sufficient time for all participating insurers to be approached.

The assigned risks pool manager will explain that anyone attempting to gain entry to the assigned risks pool must approach other participating insurers to seek insurance. For details of participating insurers and how they should be approached you should refer to the assigned risks pool manager.

4.4. Before admission to the [assigned risks pool](#) the applicant must:

- supply the [assigned risks pool manager](#) with any information it may reasonably require;
- agree to pay to the [assigned risks pool manager](#) within thirty days any required deposit and agree to pay within six months the balance to meet the full premium as eventually assessed;
- agree to submit, at the applicant's own expense, to investigations as required by regulation 4.5; and
- consent to the [assigned risks pool manager](#) notifying the [Committee](#) of the application for admission to the [assigned risks pool](#) and whether or not it was granted.

The cover provided in the assigned risks pool will not include claims made or circumstances reported or known to you before you entered the assigned risks pool. Before entry into the assigned risks pool it is therefore essential to notify existing insurers, before the existing policy expires, of all known claims or circumstances which might give rise to a claim.

4.5. Once in the [assigned risks pool](#) the person, [member](#) or [firm](#) must submit, at its own expense, to an investigation by the [Committee](#) or its appointed agent and, if the [Committee](#) so decides, a further investigation at a later date. A deposit for the costs of the investigation may be required at the [Committee](#)'s discretion. The investigation will:

- determine the reasons why cover could not be obtained; and
- ascertain what steps, if any, should be taken to enable cover to be obtained outside the [assigned risks pool](#).

4.6. The [Committee](#) will notify the person, [member](#) or [firm](#) of any action it should take following the investigation. If, as part of the investigation, the [Committee](#) considers that the interests of any clients of the person, [member](#) or [firm](#), or of the public, may be adversely affected, the [Committee](#) will refer the matter to any regulatory, disciplinary or other committee of [ICAEW](#) for that committee to take appropriate action.

Before you can enter the assigned risks pool you must sign a contract which requires you to pay the premium determined by the Joint Advisory Panel and have a review of your practice. A significant premium deposit is payable immediately. A final adjustment will be made once your position has been reviewed. You must also pay the cost of the investigation and any follow-up investigation which is necessary.

ICAEW will arrange for an investigation of your firm. This report will be used deciding whether you are in a position to be able to leave the assigned risks pool and, if not, what steps should be taken by you to satisfy insurers. It is also to enable the committee to assess whether it should report any matters for possible regulatory or disciplinary action.

Leaving the assigned risks pool

- 4.7. The written approval of the [Joint Advisory Panel](#) is required before a person, [member](#) or [firm](#) can remain in the [assigned risks pool](#) for more than twenty four consecutive months.
- 4.8. Applications for extensions of time in the assigned risks pool must be made, through the [assigned risks pool manager](#), to the [Joint Advisory Panel](#) which has absolute discretion to grant the application for continuation in the [assigned risks pool](#). The decision of the [Joint Advisory Panel](#) in respect of the continuation will be final. Any such extension may be granted subject to the requirements of regulation 4.4.
- 4.9. The written approval of the [Joint Advisory Panel](#) for a person, [member](#) or [firm](#) to remain in the [assigned risks pool](#) must be submitted to the [Committee](#). If the [Committee](#) considers that the interests of any clients of the person, [member](#) or [firm](#), or of the public, may be adversely affected by the person, [member](#) or [firm](#) remaining in the [assigned risks pool](#), the [Committee](#) will refer the matter to any regulatory, disciplinary or other committee of [ICAEW](#) for that committee to take appropriate action.

It is a requirement that a member who holds a practising certificate must comply with these regulations. A member will therefore lose the right to a practising certificate at the end of the expiry of the maximum two year period (or any extension) allowed in the assigned risks pool if no other arrangements are made to meet the requirement of these regulations.

If a member ceases to be eligible to hold a practising certificate then the bye-laws require that the practising certificate must be returned to ICAEW immediately.

You can leave the assigned risks pool at any time if you obtain cover in the general insurance market. You must normally leave the assigned risks pool after two years and, if it is not possible to obtain cover at the end of those two years, you will no longer be eligible to hold a practising certificate. It may be possible to obtain an extension of time within the assigned risks pool but this is at the discretion of the Joint Advisory Panel. Further, such an extension must be acceptable to the committee.

It is essential to advise the assigned risks pool manager of any claim or circumstance which might give rise to a claim before you leave the assigned risks pool. It is also essential, when seeking cover outside the assigned risks pool, to make any potential insurer aware of your time in the assigned risks pool, otherwise this could jeopardise your cover and your new insurers might refuse a claim on the grounds of material non-disclosure.

5 The committees

Professional Indemnity Insurance Committee

Composition

5.1. Council will appoint the Committee, which must consist of at least four members, and its quorum is three.

Responsibilities

5.2. The Committee is responsible for:

- reviewing the qualifying insurance criteria;
- monitoring compliance with these regulations and reporting non-compliance to any regulatory, disciplinary or other committee of ICAEW;
- deciding the content of the annual certificate of compliance with these regulations (regulation 2.5);
- approving the form and content of the contract for entry into the assigned risks pool;
- ensuring the commissioning of investigations into firms applying to be admitted to the assigned risks pool (regulation 4.5);
- making a referral to any regulatory, disciplinary or other committee of ICAEW for that committee to take appropriate action following an investigation under regulation 4.5;
- designating authorised insurers as participating insurers; and
- granting, at its absolute discretion, an exemption under regulation 5.3.

5.3. The Committee may, at its absolute discretion, and in such terms as it decides:

- grant an exemption from the requirements of these regulations to a member who is a principal in a practice which is regulated by another professional body and has in place the professional indemnity insurance required by that body;
- waive or relax the requirements of regulation 3.5 (level of excess);
- allow a firm subject to these regulations to combine with others to comply with these regulations;
- waive or relax the requirements of these regulations concerning participating insurers;
- grant an exemption from the requirements of these regulations to a member who is an employee in a firm and who is holding a practising certificate only to meet the requirement of the audit or insolvency regulations and who is not engaged in public practice in another firm or on their own account;
- grant an exemption from the requirements of these regulations to a member who holds a practising certificate but who is not engaged in public practice;
- grant an exemption from the requirements of regulation 3.1b (arranging qualifying insurance) to an entity or individual if that entity is owned or the individual is employed by an entity that is not subject to these regulations provided that other entity (the owner/employer) has, and agrees to maintain, other appropriate professional indemnity insurance; and
- grant an exemption from the requirements of regulation 3.1b (arranging qualifying insurance) to an entity or individual if that entity or individual is resident in a country outside the UK or RoI provided that the entity or individual is primarily in practice outside the UK/RoI and has other appropriate professional indemnity insurance that covers work undertaken in the UK/RoI.

This regulation allows the committee to exempt members and firms from the requirements of particular regulations. These are the only exemptions allowed.

You may be in a firm which is regulated and insured under the requirements of another professional body. ICAEW can advise you if your cover meets the requirements of these regulations and whether you may apply to the committee for an exemption from them.

In exercising its discretion, the committee will take account of whether the cover is at least equivalent to that required by these regulations, and whether the insurer in question is a participating insurer in ICAEW's scheme.

The minimum requirements may include a self insured element so long as it does not exceed the limits in these regulations. The limits are set out in full in regulation 3.5. The committee can vary these in specific situations although the general rule is that the maximum self insured element should be £30,000 per principal.

The committee can permit a group of firms to arrange the insurance required by these regulations jointly. Regulation 3.6 details exactly how this can happen.

The committee can relax the requirements relating to participating insurers.

The [Audit Regulations and Guidance](#) allow an employee to be designated as a responsible individual and the Insolvency Regulations allow an employee to hold an insolvency licence. Both sets of regulations require such an employee to hold a practising certificate. However, there is no need for such an employee to have his own professional indemnity insurance.

Some members hold a practising certificate even though not engaged in public practice. There is no need for such members to have their own professional indemnity insurance.

If the individual is also engaged in public practice in another firm or otherwise on his own account, insurance must be obtained to meet the requirements of these regulations.

You may be subject to these regulations but employed or owned by another entity which is not. In this case the committee may exempt you from having 'qualifying insurance' but only if the other entity has other appropriate professional indemnity insurance arrangements in place.

You may also be subject to these regulations but your practice is primarily based outside the UK or RoI. In this case the committee may exempt you from having 'qualifying insurance' but only if you have other appropriate professional indemnity insurance arrangements in place for your UK/RoI clients.

In all cases, any relaxation of the regulations is at the absolute discretion of the committee which may attach conditions to the relaxation.

5.4. The [Committee](#) may publish its decisions or advice as and where it considers appropriate.

5.5. Except where regulation 5.6 applies, the [Committee](#) may delegate its duties to sub-committees or to the [secretariat](#).

5.6. The [Committee](#) may not delegate the following decisions:

- a relaxation from these [regulations](#) for [members](#) insured under the requirements of another body; and
- a relaxation under regulation 3.5 (level of self-insured excess).

Provision of information to the Committee

5.7. In carrying out its functions under these [regulations](#), the [Committee](#) has the power to require a person, [member](#) or [firm](#) subject to these [regulations](#) to provide any information (including books, papers and records) about it or its clients. This power also applies to any of the [Committee](#)'s sub-committees, the [secretariat](#), or any duly appointed agent.

5.8. Information provided to the [Committee](#) under these [regulations](#) will be treated as confidential but may be disclosed if the [Committee](#) considers it appropriate in the following circumstances:

- in connection with the procedures set out in these [regulations](#);
- in connection with disciplinary proceedings by [ICAEW](#) or the [Investigation and Discipline Scheme](#);

- in connection with the discharge by [ICAEW](#) of its function as a regulatory body; or
- as required by law or regulations.

5.9. A person, [member](#) or [firm](#) which was subject to these [regulations](#) will nevertheless continue to be subject to regulation 5.7 in so far as the enquiries or information required relate to any period up to and including the date when compliance with these [regulations](#) was no longer required.

It is important that confidentiality is maintained so as to avoid prejudicing the terms of members' insurance cover. Except for the circumstances described in regulation 5.8 neither the committee, nor any member of ICAEW or secretariat, may disclose the insurance details of any member to any person other than that member.

Joint Advisory Panel

5.10. The [Joint Advisory Panel](#) will:

- consist of two representatives from each of the [Institutes](#), one of whom shall be nominated Chairman by joint agreement of the Presidents of the [Institutes](#), and four representatives from the [participating insurers](#);
- have a quorum for meetings of four members, two of whom must be representatives of the [Institutes](#) and two of the [participating insurers](#); and
- meet as required and at least twice a year.

5.11. The [participating insurers'](#) membership of the [Joint Advisory Panel](#) will be reviewed annually by the [assigned risks pool manager](#) by reference to the [participating insurers'](#) level of participation in the [assigned risks pool](#).

5.12. The [Joint Advisory Panel](#) is responsible for:

- reviewing the progress, effectiveness and viability of the [participating insurers](#) scheme including the [assigned risks pool](#);
- reviewing insurance matters referred to [ICAEW](#);
- determining applications for admission to the [assigned risks pool](#);
- determining applications for extensions in particular cases to the maximum of twenty four months in the [assigned risks pool](#); and
- dealing with any other matters referred to the [Joint Advisory Panel](#).

The Joint Advisory Panel ensures that there is a regular exchange of information between the Institutes and insurers and that the regulations are suitable to meet current market conditions. The Joint Advisory Panel also provides technical expertise and, in particular, monitors firms in the assigned risks pool.

6 Additional guidance

- 6.1.** This chapter has been compiled from questions asked by members and should answer most of your queries. If you are unable to find the answer to your particular problem, you should contact your broker, or the professional indemnity insurance section of Professional Standards.
- 6.2.** This section, together with the guidance included with the regulations, also provides guidance on the 'reasonable steps' that regulation 3.1 requires firms to take.

Certificate of compliance

- 6.3.** The certificate of compliance is the document used by ICAEW to collect information on the amount of insurance each firm has. It is sent to all those who have professional indemnity insurance as part of the Practice Assurance annual return.
- 6.4.** Individual principals in a firm will not receive separate certificates unless they are also in another firm on their own account. Members who hold a practising certificate but who are not engaged in public practice will not receive a certificate.

Claims handling

- 6.5.** All principals, together with their employees, should be made aware of the importance of notifying insurers promptly of claims or circumstances which may give rise to a claim. Everyone in the firm should know that failure to comply with underwriters' requirements in this regard could seriously prejudice the firm's rights and entitlement to indemnity under the policy.
- 6.6.** One person, at the level of principal, should be given the task of recording and coordinating information about claims or circumstances and of notifying brokers/underwriters accordingly. That person should regard the prompt notification to brokers/underwriters as a first priority and should not wait until there have been developments or until a detailed report of the matter has been prepared.
- 6.7.** All staff should be encouraged to report promptly to the individual designated in the above paragraph any matters of which they become aware.
- 6.8.** Claims or circumstances should be regarded objectively. If there are circumstances which might reasonably give rise to a claim then insurers should be notified immediately. This is regardless of the fact that currently allegations may be vague or not specified and regardless of whether the member personally thinks liability is unlikely. (In this latter regard the question of liability is a legal one which only lawyers and, ultimately, the courts are competent to decide.)
- 6.9.** There should be a regular item on the agenda of principals' meetings to discuss any matter that might lead to a claim and also to monitor any claims that have been made.

- 6.10.** Prior to renewal and the completion of the proposal form, a circular should be sent to all principals requiring confirmation that they are not aware (after enquiry of staff who report to them if applicable) of any claim or circumstance which may give rise to a claim. The circular should remind principals and staff of the importance of the declaration and that failure could prejudice the firm's rights under the policy. In addition, it should make clear that the period between the completion of the proposal form and renewal is a critical one and that any matter or circumstance arising in that period must be notified as a matter of great urgency.

Cost of cover

- 6.11.** This is a matter between you and your insurer and ICAEW will not become involved in these discussions unless you are offered a quotation which you are unable to pay within six months from the commencement of the policy, or which has such an effect on your financial security that it jeopardises your ability to carry on your business (regulation 4.1).

Level of cover

- 6.12.** Having carried out your risk assessment procedures (see paragraphs 6.16 to 6.23) you should decide the level of cover required, considering:
- the minimum level required by these regulations;
 - the likely level of exposure of the firm to claims;
 - whether current cover is consistent with that of similar firms, using available resources such as interfirm comparison, information held by your broker, and information held jointly with other firms in a mutual arrangement;
 - the advice from experts on what cover is available and its cost. This should include consideration of whether the cover offered includes legal costs within, rather than in addition to, the limit of indemnity. Your broker will be able to assist you;
 - the level of the firm's own resources to meet claims. This includes the availability of both firm and personal assets and reserves held to meet known claims.

Practice mergers etc

- 6.13.** You must plan in advance if your firm's structure changes. For example, if you are about to merge with another firm, you and your fellow principals must ensure that the new firm has sufficient qualifying insurance in order for you to comply with the regulations. If your firm is dividing, each new firm must have sufficient qualifying insurance in its own right. Further guidance is in paragraph 6.24 onwards.

Recommended level of insurance cover (limit of indemnity)

- 6.14.** The minimum required level is set out in chapter 3. No firm is currently required to have more than £1.5 million insurance cover but for many firms this limit may not be adequate. It is important to note that all firms are required to take reasonable steps to be able to meet claims arising from professional business.

Reminder letter from ICAEW

- 6.15.** This, together with a blank certificate of compliance (part of the Practice Assurance annual return), is sent out as a reminder to every firm and member, (resident in the United

Kingdom or the Republic of Ireland) and holding a practising certificate but not engaged in public practice before cover is due for renewal. If you have not already started to negotiate your cover for next year you should do so immediately you receive the reminder.

Risk assessment

- 6.16.** Your first priority is to limit the risk of claims against your firm.
- 6.17.** ICAEW produces a helpsheet [Managing Professional Liability Risk](#), which sets out in detail the steps you should take to limit the risk of claims and what you should consider before accepting new clients, or new work from existing clients.
- 6.18.** A firm should carry out a risk assessment and take any appropriate action. This would normally be at least annually, in the context of an impending renewal of PII cover, and at any other time when the composition of the firm or its client base changes significantly. The assessment should give consideration to the possibility of being sued should anything go wrong and the possible amount of such a claim:
- client by client, having regard to whether the work is ongoing or one-off;
 - client by client, having regard to the maximum potential exposure of those interested in the client, for example shareholders and creditors.
- 6.19.** External information such as the general economic climate and the types of business experiencing difficulties should also be considered as part of the assessment.
- 6.20.** As part of the assessment of each client (and new clients before they are taken on) the following should be considered:
- instructions received, and nature of work to be carried out and the resources necessary in time and staff to complete tasks in a timely and accurate manner;
 - credibility of management;
 - quality of accounting, financial and management controls;
 - type of business;
 - continued viability of company;
 - the effect of the fee on the quality of the work.
- 6.21.** If you decide that work done for any client creates a potentially higher than average risk, whether or not you are charging a fee, you should:
- evaluate your ability to mitigate the risk in terms of procedures;
 - initiate safety procedures, for example a review by another principal;
 - reconsider your quality control and assurance procedures;
 - decide whether to retain the client.
- 6.22.** Remember the need to cover:
- all of your firm's current staff, including sub-contractors and consultants;
 - all of your firm's activities including, for example, joint audit appointments;
 - past and new principals and predecessors in business.

- 6.23.** After taking any limiting action you must then assess the remaining risk before deciding upon the level of professional indemnity insurance. Bear in mind the firm's claims history and the need for regular analysis of prime causes of any failures experienced by the firm.

Retroactive cover

- 6.24.** When a practitioner ceases in public practice (and assuming he does not keep his practising certificate) then 'run-off' cover should be arranged. This is explained below.
- 6.25.** The position can be more complicated when a practitioner moves between practices. The obligation is on individual members to have 'qualifying insurance'. An important part of what constitutes qualifying insurance is retroactive cover. Although the insurance is on a claims made basis, which means the relevant time is when a claim is made, not when the work was done, insurers will frequently put a retroactive date on the policy. This cannot be less than six years and may well be much longer. The practical effect is that the insurers will not accept a claim if the original work was done before the retroactive period started.
- 6.26.** When a practitioner changes practice, either by moving between firms or leaving a partnership to become a sole practitioner, it is very important that this retroactive part of the cover is maintained. This can be achieved in a number of ways:
- as retroactive cover in the new practice;
 - as a former principal in the old practice;
 - as a special policy;
 - as a last resort, in the assigned risks pool (see chapter 4).
- 6.27.** It is the member's responsibility to ensure that this element of the cover is in place. If the cover is provided by the insurance policy of a practice the member has just left, then the provision of such insurance, and confirmation of its continued existence, should form part of any 'leaving' agreement.
- 6.28.** Similar consideration applies when practices merge or break-up into smaller firms. Each member should ensure, through one route or another, that retroactive cover is in place. It may be necessary to take advice from a specialist insurance broker. As with all such matters, advance planning is essential.

Run off cover

- 6.29.** Members are expected to use their best endeavours to ensure they are covered by arrangements which comply with ICAEW's regulations for at least twenty four months after they cease to practise. The terms and extent of any cover should be equivalent to any previous qualifying insurance. It is to cover the practitioner for claims received after ceasing in practice for work done while in practice.
- 6.30.** Run off cover may be provided under the policy of a continuing practice or you may need to take out an individual policy. If your former practice has undertaken to include run off cover for you in its current cover, you must remember to check that it continues to cover you for at least two years. At the end of that time you should consider whether you need

continued cover.

- 6.31.** You should continue to assess your need for such cover each year until you are satisfied that there is no possibility of a claim being made. It is recommended that you consider maintaining run-off cover for six years after you cease to practise.

Terms used in policy documents

Aggregate

- 6.32.** The total limit of indemnity available. The policy may describe this as 'any one claim and in all' or 'each and every claim and in the aggregate'.

Claims made basis

- 6.33.** This means that the insurance will provide cover for claims first made or circumstances arising and notified to the insurers during the term of the current policy only. This is irrespective of when the work concerned was carried out, but see 'retroactive cover' above. It is therefore important that insurance remains in force to provide protection against any claims which may arise in the future for work done in the past.

Each and every claim

- 6.34.** The limit of indemnity specified in the policy schedule available to meet 'each and every' claim. This may also be written as 'any one claim'. In this case there is no overall limit and multiple claims, each up to the limit, could be made.

Limit of indemnity

- 6.35.** The maximum amount that an insurer is obliged to pay out, either in aggregate or each and every claim, to meet valid claims against the firm while the insurance is in force.

Appendix A - Participating insurers

The [Financial Services Authority](#) (or the [Central Bank of Ireland](#)) is responsible for authorising insurers to carry on general insurance business in the United Kingdom or the Republic of Ireland. Any such authorised insurer prepared to agree to the conditions of ICAEW's scheme may apply to the assigned risk pool manager to be designated as a participating insurer.

To be a participating insurer, an authorised insurer has to agree to:

- provide insurance in accordance with these regulations;
- subscribe to the assigned risks pool, as described in chapter 4;
- supply ICAEW or its appointed agent such information as it may reasonably require;
- refer to arbitration all disputes with insured firms involving disagreement about:
 - which of two or more participating insurers should indemnify a firm; or
 - how two or more participating insurers should indemnify a firm.

ICAEW has a list of participating insurers which is updated every year and can be obtained from ICAEW's website at icaew.com/pij.

Most insurers underwrite in groups (facilities) with a lead underwriter and several following underwriters. On the list provided by ICAEW, those insurers which accept business direct are indicated. The other insurers must be approached through a broker, preferably a Lloyd's broker, with access to all participating insurers.

ICAEW CODE OF ETHICS

SECTION 1 - APPROACH, SCOPE AND AUTHORITY

(This Code of Ethics applies from 1 January 2011. Where guidance relates to projects or engagements commencing prior to that date, previous guidance may be applied up to completion of the project or engagement. Transitional arrangements are available in respect of section 290.)

<i>Introduction</i>
<i>Approach</i>
<i>Scope</i>
<i>Authority</i>
<i>Relationship with other ethical requirements</i>
<i>Sources of guidance</i>

Introduction

- 1.1** *One of the principal objects of the Royal Charter is to maintain a high standard of efficiency and professional conduct by members* of ICAEW. The Code of Ethics (‘this Code’) applies to all members* of ICAEW (which for the purposes of this Code also includes affiliates*, provisional members*, and employees of a member firm* or an affiliate*) and member firms* where relevant. These are referred to in the remainder of this Code as professional accountants*.*
- 1.2** *Professional accountants* have a responsibility to take into consideration the public interest (considered in more detail in paragraph 100.1) and to maintain the reputation of the accountancy profession. Personal self-interest must not prevail over those duties. This Code helps professional accountants* to meet these obligations by providing them with ethical guidance. Failure to follow this Code may lead to a professional accountant* becoming liable to disciplinary action as outlined in the Disciplinary Bye-laws 4, 5, 6 and 6A available at (www.icaew.com/regulations).*

Approach

- 1.3** *Guidance is given in the form of fundamental principles and illustrations of how they are to be applied in specific situations. These are available at ICAEW’s web site www.icaew.com/ethics. The fundamental principles are drawn from the duties owed by professional accountants*, whether in practice or not, and from the requirements of the Royal Charter. They are framed in broad and general terms and constitute basic requirements of professional behaviour. The illustrations provide guidance on what is expected of professional accountants* in relation to particular situations that commonly arise either in practice or in business. The value of this principles-based approach is that it avoids excessive legalism by not having to anticipate every contingency, whilst at the same time being helpful in giving examples of problem situations. In some*

* See Definitions for parts A, B and C

instances, prohibitions or mandatory actions arise from the analysis of threats: these are considered further in paragraph 100.12.

Scope

- 1.4** *Professional accountants* shall follow the guidance contained in the fundamental principles in all of their professional and business activities whether carried out with or without reward and in other circumstances where to fail to do so would bring discredit to the profession. This Code also includes a number of specific requirements, which are shown by use of the word 'shall'. This means that a professional accountant* shall follow the requirements, including prohibitions or mandatory actions, where circumstances are the same as, or analogous to, those addressed by those requirements. Failure to follow such guidance may be justified in those rare circumstances where to follow a precise prohibition or mandated action would result in failure to adhere to the fundamental principles.*
- 1.5** *For convenience, the illustrations in this Code are grouped into parts applicable principally to professional accountants* working in public practice, business and insolvency respectively, but professional accountants* may find any of them of use in relevant circumstances.*
- 1.6** *Professional accountants* shall be guided not merely by the terms but also by the spirit of this Code and the fact that particular conduct does not appear among a list of examples does not prevent it amounting to misconduct.*
- 1.7** *Professional accountants* shall ensure that work for which they are responsible, which is undertaken by others on their behalf, is carried out in accordance with the requirements of this Code.*
- 1.8** *Member firms* are reminded that this Code applies to their employees, whether members* or not, and that they are responsible for applying this requirement.*
- 1.9** *Certain areas of work are reserved by statute to professional accountants* who are in practice, whether or not with other persons, namely investment business, insolvency and audit. In these areas professional accountants* may be subject to rules laid down by laws and regulation, breach of which can give rise to disciplinary proceedings against the professional accountant*.*
- 1.10** *If the advice in this Code conflicts with laws and regulations, professional accountants* are bound to follow the laws and regulations.*
- 1.11** *Professional accountants* working overseas shall comply with this Code unless to do so would breach local laws and regulations.*

Authority

- 1.12** *In determining whether or not a complaint is proved, the Investigation and Disciplinary Committees may have regard to any code of practice, ethical or technical, and to any regulations affecting professional accountants*, laid down or approved by the ICAEW's Council.*

* See Definitions for parts A, B and C

1.13 *Paragraph 100.2 notes that safeguards are required to be put into place to eliminate or reduce the threats to an acceptable level*. In the event of a complaint, the Investigation and Disciplinary Committees will consider the matter, including whether a reasonable and informed third party would conclude, weighing all the specific facts and circumstances available to the professional accountant* at that time, that compliance with the fundamental principles is compromised.*

Relationship with other ethical requirements

1.14 *Except as noted below, this Code has been derived from the International Ethics Standards Board of Accountants (IESBA) Code of Ethics issued in July 2009 by the International Federation of Accountants. Accordingly, compliance with the remainder of this Code will ensure compliance with the principles of the IESBA Code. Paragraph numbering in the rest of this Code replicates that used in the IESBA Code of Ethics, except in respect of:*

- *Sections 221, 241 and Part D which have no direct equivalent in the IESBA Code of Ethics;*
- *Wording in italics in the other sections, where additional discussion and/or requirements have been considered by Council to be useful or necessary. The fact that wording is or is not in italics does not indicate any differences in the degree of importance that shall be attached to it.*
- *A direct link has been retained to paragraph numbering in the IESBA Code of Ethics. However, as a result of the additional discussion and requirements noted above, and deletion of material that is not applicable to the professional accountants* of ICAEW, the paragraph referencing in this Code is not necessarily consecutive.*

1.15 *In accordance with UK legislation, ICAEW has adopted, as regards auditor independence* requirements, the Ethical Standards for Auditors, issued by the Auditing Practices Board ('APB'). Therefore, when conducting audit engagements* in accordance with ISAs (UK and Ireland), professional accountants* shall comply with the requirements of the APB's Ethical Standards for Auditors, including Provisions Available for Small Entities (ES-PASE) (www.frc.org.uk/apb/publications/ethical.cfm). For other audit and assurance engagements* ICAEW's Code may apply (see 1.17 below).*

1.16 *The APB has stated, in ISA (UK and Ireland) 200, that it is not aware of any significant instances where the relevant parts of IESBA Code of Ethics are more restrictive than the APB's Ethical Standards.*

1.17 *The independence* requirements to be adopted for different types of assurance engagement*, are set out below:*

* See Definitions for parts A, B and C

Type of assurance engagement*	Independence* requirements to be followed
<i>Audit engagements* in accordance with ISAs (UK and Ireland)</i>	<i>The APB's Ethical Standards for Auditors (www.frc.org.uk/apb/publications/ethical.cfm)</i>
<i>Audit engagements* performed in accordance with other standards</i>	<i>Section 290 of this Code or if more convenient to apply, the independence* requirements of the APB's Ethical Standards for Auditors.</i>
<i>Review engagements* (see appendix to section 290)</i>	<i>Section 290 of this Code or if more convenient to apply, the independence* requirements of the APB's Ethical Standards for Auditors.</i>
<i>Other types of assurance engagements*</i>	<i>Section 291 of this Code.</i>

1.18 *Note that the Statements of Investment Circular Reporting Standards (SIRS), issued by the APB require compliance with the APB's Ethical Standard for Reporting Accountants (ESRA). Accordingly, any professional accountant in public practice* issuing a report that states that the work has been carried out in accordance with the SIRS will need to comply with the independence* requirements of the ESRA.*

Sources of Guidance

1.19 *Professional accountants* who are in doubt as to their ethical position may seek advice from the following sources, available to all members* of ICAEW:*

- *ICAEW's Technical Advisory Services by e-mail: ethics@icaew.com or phone +44 (0)1908 248 250. This service is confidential and the advisors are free from the duty to report professional misconduct within ICAEW. Further information on the Technical Advisory Services can be found at www.icaew.com/ethicsadvice, along with helpsheets and answers to a number of frequently asked questions.*
- *The Support Members Scheme. This is wider in scope than the Technical Advisory Services. The Support Members Scheme is run by volunteer members of the ICAEW from a wide range of backgrounds. It is a confidential, free service exempt from the duty to report misconduct and provides advice and help to members* in difficulties. A member* can contact the Support Members Scheme by phone on +44 (0) 800 917 3526.*

* See Definitions for parts A, B and C

- 1.20** *Seeking advice from the Technical Advisory Services does not discharge a professional accountant's* duty to report misconduct, including their own misconduct (see 'The duty to report misconduct' at www.icaew.com/regulations).*
- 1.21** *A professional accountant* is encouraged to consider taking legal advice to resolve issues arising from the application of laws and regulations to particular situations relating to confidentiality, disclosure, privilege, self-incrimination and other areas.*
- 1.22** *Additional information on ethics, including case studies is available at www.icaew.com/ethics. These case studies provide practical guidance for resolving ethical dilemmas on topics such as conflicts of interest, confidentiality and questionable accounting and business practices.*

* See Definitions for parts A, B and C

PART A - GENERAL APPLICATION OF THIS CODE

100	Introduction and Fundamental Principles
110	Integrity
120	Objectivity
130	Professional Competence and Due Care
140	Confidentiality
150	Professional Behaviour
	<i>Appendix to Part A</i>

SECTION 100 - INTRODUCTION AND FUNDAMENTAL PRINCIPLES

- 100.1** A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

Acting in the public interest involves having regard to the legitimate interests of clients, government, financial institutions, employers, employees, investors, the business and financial community and others who rely upon the objectivity and integrity of the accounting profession to support the propriety and orderly functioning of commerce. This reliance imposes a public interest responsibility on the profession. Professional accountants shall take into consideration the public interest and reasonable and informed public perception in deciding whether to accept or continue with an engagement or appointment, bearing in mind that the level of the public interest will be greater in larger entities and entities which are in the public eye.*

Therefore, a professional accountant's* responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant* shall observe and comply with this Code. If a professional accountant* is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant* shall comply with all other parts of this Code.

- 100.2** This Code contains *four* parts. Part A establishes the fundamental principles of professional ethics for professional accountants* and provides a conceptual framework that professional accountants* shall apply to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the significance of the threats identified; and
 - (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level*. Safeguards are necessary when the professional accountant* determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available

* See Definitions for parts A, B and C

to the professional accountant* at that time, that compliance with the fundamental principles is not compromised.

A professional accountant* shall use professional judgment in applying this conceptual framework.

Where a professional accountant decides to accept or continue an engagement, appointment, task or employment in a situation where a significant threat to the fundamental principles has been identified, the professional accountant* is expected to be able to demonstrate that the availability and effectiveness of safeguards has been considered and that it was reasonable to conclude that those safeguards will adequately preserve their compliance with the fundamental principles. It may be useful to document the reasoning and other evidence which supports the evaluation of threats and safeguards to such an extent that it enables a reasonable and informed third party to conclude that the decisions are acceptable.*

100.3 Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to professional accountants* in public practice. Part C applies to professional accountants in business*. Professional accountants in public practice may also find Part C relevant to their particular circumstances. *Part D deals with professional accountants* undertaking insolvency work.*

100.4 The use of the word “shall” in this Code imposes a requirement on the professional accountant* or firm* to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code. (See 1.4)

Fundamental Principles

- 100.5** A professional accountant* shall comply with the following fundamental principles:
- (a) **Integrity** – to be straightforward and honest in all professional and business relationships.
 - (b) **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
 - (c) **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services* based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
 - (d) **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to

* See Definitions for parts A, B and C

disclose, nor use the information for the personal advantage of the professional accountant* or third parties.

- (e) **Professional Behaviour** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in sections 110–150.

Conceptual Framework Approach

- 100.6** The circumstances in which professional accountants* operate may create 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 action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a professional accountant* to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists professional accountants* in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant* from concluding that a situation is permitted if it is not specifically prohibited.
- 100.7** When a professional accountant* identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level*, the professional accountant* shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level*. In making that determination, the professional accountant* shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant* at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level* by the application of the safeguards, such that compliance with the fundamental principles is not compromised.
- 100.8** A professional accountant* shall evaluate any threats to compliance with the fundamental principles when the professional accountant* knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.9** A professional accountant* shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a professional accountant* may encounter situations in which threats cannot be eliminated or reduced to an acceptable level*, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the professional accountant* shall decline or discontinue the specific professional service* involved or, when necessary, resign from the engagement (in the case of a professional accountant in public practice*) or the employing organisation (in the case of a professional accountant in business*).

* See Definitions for parts A, B and C

- 100.10** A professional accountant* may inadvertently violate a provision of this Code. Depending on the nature and significance of the matter, such an inadvertent violation may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 100.11** When a professional accountant* encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the professional accountant* consult with ICAEW (see *Sources of Guidance in section 1 of this Code*) or the relevant regulator.
- 100.12** Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's* compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:
- (a) Self-interest threat — the threat that a financial or other interest will inappropriately influence the professional accountant's* judgment or behaviour;
 - (b) Self-review threat — the threat that a professional accountant* will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant*, or by another individual within the professional accountant's* firm* or employing organisation, on which the accountant will rely when forming a judgment as part of providing a current service;
 - (c) Advocacy threat — the threat that a professional accountant* will promote a client's or employer's position to the point that the professional accountant's* objectivity is compromised;
 - (d) Familiarity threat — the threat that due to a long or close relationship with a client or employer, a professional accountant* will be too sympathetic to their interests or too accepting of their work; and
 - (e) Intimidation threat — the threat that a professional accountant* will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant*.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants* in public practice and professional accountants in business*, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances. *Part D deals with professional accountants* undertaking insolvency work.*

Professional accountants shall note that each of the categories of threat discussed above may arise in relation to the professional accountant's* own person or in relation to connected persons such as members of their family or partners* or persons who are close to the professional accountants* for*

* See Definitions for parts A, B and C

some other reason, for instance by reason of a past or present association, obligation or indebtedness.

Threats and Safeguards

100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level*. They fall into two broad categories:

- (a) Safeguards created by the profession, legislation or regulation; and
- (b) Safeguards in the work environment.

100.14 Safeguards created by the profession, legislation or regulation include:

- 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*.

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

100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organisation, include:

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

Ethical Conflict Resolution

100.17 A professional accountant* may be required to resolve a conflict in complying with the fundamental principles.

100.18 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:

- (a) Relevant facts;
- (b) *Relevant parties*;

* See Definitions for parts A, B and C

- (c) Ethical issues involved;
- (d) Fundamental principles related to the matter in question;
- (e) Established internal procedures; and
- (f) Alternative courses of action.

Having considered the relevant factors, a professional accountant* shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the professional accountant* may wish to consult with other appropriate persons within the firm* or employing organisation for help in obtaining resolution.

It will generally be preferable for the ethical conflict to be resolved within the employing organisation before consulting individuals outside the employing organisation.

- 100.19** Where a matter involves a conflict with, or within, an organisation, a professional accountant* shall determine whether to consult with those charged with governance* of the organisation, such as the board of directors or the audit committee*.
- 100.20** It may be in the best interests of the professional accountant* to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.
- 100.21** If a significant conflict cannot be resolved, a professional accountant* may consider obtaining professional advice from *ICAEW* or from legal advisors. The professional accountant* generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with *ICAEW's ethics helpline* or with a legal advisor under the protection of legal privilege. Instances in which the professional accountant* may consider obtaining legal advice vary. For example, a professional accountant* may have encountered a fraud, the reporting of which could breach the professional accountant's* responsibility to respect confidentiality. The professional accountant* may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

Further information on sources of guidance is available in section 1.

- 100.22** If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant* shall, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant* shall determine 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 organisation.

More detailed guidance on the ethical conflict resolution process is available in the Appendix to Part A.

SECTION 110 - INTEGRITY

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

It follows that a professional accountant's advice and work must be uncorrupted by self-interest and not be influenced by the interests of other parties.*

110.2 A professional accountant* shall not knowingly be associated with reports, returns, communications or other information where the professional accountant* believes 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.

When a professional accountant* becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

110.3 A professional accountant* will be deemed not to be in breach of paragraph 110.2 if the professional accountant* provides a modified report in respect of a matter contained in paragraph 110.2.

Further discussion on integrity, which is not part of the Code requirements, is available at www.icaew.com/ethics.

SECTION 120 – OBJECTIVITY

120.1 The principle of objectivity imposes an obligation on all professional accountants* not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.

Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other.

120.2 A professional accountant* may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant* shall not perform a professional service* if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect to that service.

SECTION 130 – PROFESSIONAL COMPETENCE AND DUE CARE

130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants*:

* See Definitions for parts A, B and C

- (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 when providing professional services*.
- 130.2** 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.
- 130.3** The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant* to develop and maintain the capabilities to perform competently within the professional environment.
- Further guidance on continuing professional development is available at www.icaew.com/cpd and in the Regulations relating to learning and professional development which are available at www.icaew.com/regulations.*
- 130.4** Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- 130.5** A professional accountant* shall take reasonable steps to ensure that those working under the professional accountant's* authority in a professional capacity have appropriate training and supervision.
- 130.6** Where appropriate, a professional accountant* shall make clients, employers or other users of the accountant's professional services* aware of the limitations inherent in the services.

SECTION 140-CONFIDENTIALITY

The Principle of Confidentiality

- 140.0** *The principle of confidentiality is not only to keep information confidential, but also to take all reasonable steps to preserve confidentiality. Whether information is confidential or not will depend on its nature. A safe and proper approach for professional accountants* to adopt is to assume that all unpublished information about a client's or employer's affairs, however gained, is confidential. Some clients or employers may regard the mere fact of their relationship with a professional accountant* as being confidential.*
- 140.1** The principle of confidentiality imposes an obligation on all professional accountants* to refrain from:
- (a) Disclosing outside the firm* or employing organisation confidential information acquired as a result of professional and business

* See Definitions for parts A, B and C

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.

Professional accountants in public practice must not disclose confidential information to a client even though the information is relevant to an engagement for, or would be beneficial to, that client.*

Where professional accountants in public practice have confidential information which affects an assurance report, or other report which requires a professional accountant* to state their opinion, the professional accountant* cannot provide an opinion which they already know, from whatever source, to be untrue. If the professional accountant in public practice* is to continue the engagement, the professional accountant* must resolve this disparity. In order to do so, the professional accountant* is entitled to apply normal procedures and to make such enquiries in order to enable the professional accountant* to obtain that same information but from another source. Under no circumstances, however, shall there be any disclosure of confidential information outside the firm*.*

140.2 A professional accountant* shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family* member.

140.3 A professional accountant* shall maintain confidentiality of information disclosed by a prospective client or employer.

This requirement extends not only to clients, past and present, but also to third parties from or about whom information has been received in confidence. The principle of confidentiality clearly does not prevent an employee from using the skills acquired while working with a former employer in undertaking a new role with a different organisation. Professional accountants shall neither use nor appear to use special knowledge which could only have been acquired with access to confidential information. It is a matter of judgement as to the dividing line which separates experience gained from special knowledge acquired.*

140.4 A professional accountant* shall maintain confidentiality of information within the firm* or employing organisation.

140.5 A professional accountant* shall take reasonable steps to ensure that staff under the professional accountant's* control and persons from whom advice and assistance is obtained respect the professional accountant's* duty of confidentiality.

Member firms shall ensure that all who work on their behalf are trained in, and understand:*

- *The importance of confidentiality;*

- *The importance of identifying any conflicts of interest and confidentiality issues between clients, or between themselves or the firm and a client, in relation to a current or prospective engagement; and*
- *The procedures the firm* has in place for the recognition and consideration of possible conflicts of interest and confidentiality issues.*

140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant* and a client or employer. When a professional accountant* changes employment or acquires a new client, the professional accountant* is entitled to use prior experience. The professional accountant* shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

140.6a *Detailed guidance on conflicts of interest, including situations where such conflicts may result in threats (or perceived threats) to preservation of confidentiality, are included in section 220.*

Disclosure of Confidential Information

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

- (a) Disclosure is permitted by law and is authorised 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; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

Where required by law or regulations 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 their employing organisation, professional accountants shall always disclose that information in compliance with relevant legal requirements. Professional accountants* shall take care when communicating relevant facts to others relating to known or suspected money laundering or terrorist activities. Under the UK Money Laundering Regulations 2007, the Terrorism Act 2000 and the Terrorism Act 2006, it is a criminal offence to 'tip off' a money launderer or terrorist. For further discussion, please refer to the money laundering legislation and guidance available at www.icaew.com/moneylaundering.*

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

* See Definitions for parts A, B and C

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

A professional accountant may disclose confidential information to third parties, when not obliged to do so by law or regulations, if the disclosure can be justified in the public interest and is not contrary to laws and regulations. Before making such disclosure, professional accountants* are encouraged to obtain legal or professional advice regarding their duties and obligations in the context of their professional and business relationships, and possible protection under the UK Public Interest Disclosure Act 1998. Further guidance on disclosure in the public interest is available in 'Professional conduct and disclosure in relation to defaults or unlawful acts' at www.icaew.com/regulations.*

Confidentiality and privilege is a complex area. For example, information which is confidential may not be privileged and, therefore, may be admissible in court proceedings. Privilege is a difficult area, quite distinct from confidentiality, and it is recommended that further advice be taken if a professional accountant is in doubt as to the action to be taken.*

Guidance on money laundering reporting requirements in privileged circumstances is included in Technical Release 02/06, available at www.icaew.com/technicalreleases .

140.8 In deciding whether to disclose confidential information, relevant factors to consider include:

- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant*;
- (b) Whether 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 shall be used in determining the type of disclosure to be made, if any;
- (c) The type of communication that is expected and to whom it is addressed; and
- (d) Whether the parties to whom the communication is addressed are appropriate recipients.
- (e) *Whether or not the information is privileged, either under Legal Professional Privilege or in Privileged Circumstances under section*

* See Definitions for parts A, B and C

330 of the UK Proceeds of Crime Act 2002 (see Technical Release 02/06); and

- (f) *The legal and regulatory obligations and the possible implications of disclosure for the professional accountant*.*

140.9 *The paragraphs above deal with professional accountants* treatment of confidential information belonging to a client or employer. There is another context in which professional accountants* will be given or may obtain information which they must handle sensitively. Professional accountants* may be approached in confidence with information about alleged illegal or improper actions on the part of employees or management of the business for which the informant works or with which the informant has some other relationship. Professional accountants* may receive that information because of being trusted by the informant, or may receive it in connection with work their firm* is carrying out for the informant's employer.*

Whatever the circumstances in which the information comes to professional accountants, the professional accountants* shall:*

- *Advise informants to pass the information to their employer through the medium of the employer's own internal procedures (if they exist);*
- *Use their best endeavours to protect the identity of the informant, taking care not to mislead the informant as to the extent to which this can be done, and shall only cause the employer to be made aware of the informant's identity where this cannot be avoided; and*
- *Take care in determining the quality of the information and how best to use it, if at all.*

140.10 *For a more detailed explanation of the operation of the provisions of the UK Public Interest Disclosure Act 1998, professional accountants* are referred to ICAEW Technical Releases 16/99 'Receipt of Information in Confidence by Auditors' and 17/99 'Public Interest Disclosure Act 1998' (www.icaew.com/technicalreleases).*

SECTION 150 – PROFESSIONAL BEHAVIOUR

150.1 *The principle of professional behaviour imposes an obligation on all professional accountants* to comply with relevant laws and regulations and avoid any action that the professional accountant* knows or should know may discredit the profession. This includes actions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant* at that time, would be likely to conclude adversely affects the good reputation of the profession.*

Professional accountants shall conduct themselves with courtesy and consideration towards all with whom they come into contact when performing their work.*

* See Definitions for parts A, B and C

- 150.2** In marketing and promoting themselves and their work, professional accountants* shall not bring the profession into disrepute. Professional accountants shall be honest and truthful and 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.

APPENDIX TO PART A – FURTHER GUIDANCE ON ETHICAL CONFLICT RESOLUTION

Further guidance on the matters discussed in paragraph 100.18:

(a) *Relevant facts*

Seek to establish the known facts of the situation and any limitations. It may not be possible to obtain all relevant facts but the professional accountant may be able to obtain more background information to address the limitations by:*

- *Referring to the organisation’s policy, procedures, code of conduct and previous history;*
- *Discussing the matter with parties internal and external to the organisation. For example trusted managers and colleagues.*

(b) *Relevant parties*

Consider affected parties ranging from individuals, organisations to society. The parties to be considered include, but are not limited to, employees, employers, shareholders, consumers/clients, investors, government and the community at large.

(c) *Ethical issues involved*

Analyse the professional, organisational and personal ethical issues of the matter.

(d) *Fundamental principles related to the matter in question*

Refer to the guidance contained in this Code in order to establish which fundamental principles are affected by the situation.

(e) *Established internal procedures*

Refer to the employing organisation’s internal procedures and also consider which parties ought to be involved in the ethical conflict resolution process, in what role and at what stage. For example, the professional accountant needs to consider when it would be appropriate to refer to external sources for help, such as ICAEW (see paragraphs 1.19 to 1.22 of this Code for sources of advice and guidance).*

* See Definitions for parts A, B and C

Professional accountants may find it useful to discuss the ethical conflict issue within the organisation with the following parties:*

- *Immediate superior;*
- *The next level of management;*
- *A corporate governance body, for example, the audit committee*;*
- *Other departments in the organisation which include, but are not limited to, legal, audit and human resources departments.*

(f) *Alternative courses of action*

In considering courses of action, the professional accountant is encouraged to consider the following:*

- *The organisation's policies, procedures and guidelines;*
- *Applicable laws and regulations;*
- *Universal values and principles adopted by society;*
- *Long term and short term consequences;*
- *Symbolic consequences;*
- *Private and public consequences.*

When evaluating the suggested course of action, a professional accountant is expected to test the adequacy of the suggested course of action by considering the following:*

- *Have all consequences associated with the course of action been discussed and evaluated?*
- *Is there any reason why the suggested course of action will not stand the test of time?*
- *Would a similar course of action be undertaken in a similar situation?*
- *Would the suggested course of action stand scrutiny from peers, family and friends?*

* See Definitions for parts A, B and C

PART B—PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

200	Introduction
210	Professional Appointment
	<i>Appendix to 210</i>
220	Conflicts of Interest
221	<i>Corporate Finance Advice</i>
230	Second Opinions
240	Fees and Other Types of Remuneration
241	<i>Agencies and Referrals</i>
250	Marketing Professional Services
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280	Objectivity – All Services
290	Independence – Audit and Review Engagements
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291	Independence – Other Assurance Engagements

SECTION 200 – INTRODUCTION

- 200.1** This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in public practice*. This Part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in public practice* that create or may create threats to compliance with the fundamental principles. Therefore, the professional accountant in public practice* is encouraged to be alert for such circumstances and relationships.
- 200.2** A professional accountant in public practice* shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Fundamental Principles

- 200.2a** *A professional accountant* shall comply with the following fundamental principles:*

* See Definitions for parts A, B and C

- (a) **Integrity** – to be straightforward and honest in all professional and business relationships
- (b) **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- (c) **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services* based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- (d) **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, 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, nor use the information for the personal advantage of the professional accountant* or third parties.
- (e) **Professional Behaviour** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Threats and Safeguards

200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. 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* and whether the audit client* is a public interest entity*, to an assurance client* that is not an audit client*, or to a non-assurance client*.

Threats fall into one or more of the following categories:

- (a) Self-interest;
- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and;
- (e) Intimidation.

These threats are discussed further in Part A of this Code.

The paragraphs below set out examples of the circumstances that may result in threat and the types of safeguards that may be applicable, depending on the particular circumstances. They are not an exhaustive list nor do they imply that such circumstances will always create a significant threat. Regard should be had to the specific requirements in sections 210 to 291, when the circumstances are the same as, or analogous to, those addressed by them.

200.4 Examples of circumstances that create self-interest threats for a professional accountant in public practice* include:

- A member of the assurance team* having a direct financial interest* in the assurance client*.

* See Definitions for parts A, B and C

- A firm* having undue dependence on total fees from a client.
- A member of the assurance team* having a significant close business relationship with an assurance client*.
- A firm* being concerned about the possibility of losing a significant client.
- A member of the audit team* entering into employment negotiations with the audit client*.
- A firm* entering into a contingent fee* arrangement relating to an assurance engagement*.
- A professional accountant* discovering a significant error when evaluating the results of a previous professional service* performed by a member of the professional accountant's* firm*.

200.5 Examples of circumstances that create self-review threats for a professional accountant in public practice* include:

- A firm* issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- A firm* having prepared the original data used to generate records that are the subject matter of the assurance engagement*.
- A member of the assurance team* being, or having recently been, a director* or officer* of the client.
- A member of the assurance team* being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.
- The firm* performing a service for an assurance client* that directly affects the subject matter information of the assurance engagement*.

200.6 Examples of circumstances that create advocacy threats for a professional accountant in public practice* include:

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

200.7 Examples of circumstances that create familiarity threats for a professional accountant in public practice* include:

- A member of the engagement team* having a close or immediate family* member who is a director* or officer* of the client.

- A member of the engagement team* having a close or immediate family* member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
- A director* or officer* of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner*.
- A professional accountant* accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
- Senior personnel having a long association with the assurance client*.

200.8 Examples of circumstances that create intimidation threats for a professional accountant in public practice* include:

- A firm* being threatened with dismissal from a client engagement.
- An audit client* indicating that it will not award a planned non-assurance contract to the firm* if the firm* continues to disagree with the client's accounting treatment for a particular transaction.
- A firm* being threatened with litigation by the client.
- A firm* being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- A professional accountant* feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- A professional accountant* being informed by a partner* of the firm* that a planned promotion will not occur unless the accountant agrees with an audit client's* inappropriate accounting treatment.

200.9 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.

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.14 of Part A of this Code.

200.10 A professional accountant in public practice* shall exercise judgment to determine how best to deal with threats that are not at an acceptable level*, whether by applying safeguards to eliminate the threat or reduce it to an acceptable level* or by terminating or declining the relevant engagement. In exercising this judgment, a professional accountant in public practice* shall consider whether a reasonable and informed third party, weighing all the

* See Definitions for parts A, B and C

specific facts and circumstances available to the professional accountant* at that time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level* by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm*.

200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm*-wide safeguards and engagement-specific safeguards.

200.12 Examples of firm-wide safeguards in the work environment include:

- Leadership of the firm* that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm* that establishes the expectation that members of an assurance team* will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level* or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
- Documented 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 engagement 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, including any changes to them, to all partners* and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's* quality control system.

* See Definitions for parts A, B and C

- Advising partners* and professional staff of assurance clients* and related entities from which independence* is required.
- 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.

200.13 Examples of engagement-specific safeguards in the work environment include:

- Having a professional accountant* who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having a professional accountant* who was not a member of the assurance team* review the assurance work performed 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*.
- Discussing ethical issues with those charged with governance* of the client.
- Disclosing to those charged with governance* of the client the nature of services provided and extent of fees charged.
- Involving another firm* to perform or re-perform part of the engagement.
- Rotating senior assurance team* personnel.

200.14 Depending on the nature of the engagement, a professional accountant in public practice* may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level*.

200.15 Examples of safeguards within the client's systems and procedures include:

- The client requires persons other than management to ratify or approve the appointment of a firm* to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that 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.

* See Definitions for parts A, B and C

200.16 *Professional accountants* who are in doubt as to their ethical position may seek advice from the ICAEW's Technical Advisory Services by email: ethics@icaew.com or phone +44 (0)1908 248 250. Further information on guidance is available in section 1, paragraphs 1.19 to 1.22.*

SECTION 210 - PROFESSIONAL APPOINTMENT

210.0 *Clients have the right to choose their accountants, whether as auditors or professional advisers, and to change their accountants if they so desire. Professional accountants* have the right to choose for whom they act.*

Client Acceptance

210.1 Before accepting a new client relationship, a professional accountant in public practice* shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management or activities).

210.2 Client issues that, if known, 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.

Further information relating to money laundering legislation and guidance is included in paragraph 210.13.

210.3 A professional accountant in public practice* shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level*.

Examples of such safeguards include:

- Obtaining 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.

210.4 Where it is not possible to reduce the threats to an acceptable level*, the professional accountant in public practice* shall decline to enter into the client relationship.

210.5 It is recommended that a professional accountant in public practice* periodically review acceptance decisions for recurring client engagements.

Engagement Acceptance

210.6 The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice* to provide only those services that the professional accountant in public practice* is competent

* See Definitions for parts A, B and C

to perform. Before accepting a specific client engagement, a professional accountant in public practice* shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team* does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

210.7 A professional accountant in public practice* shall evaluate the significance of threats and apply safeguards, when necessary, to eliminate them or reduce them to an acceptable level*. Examples of such safeguards 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 reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.8 When a professional accountant in public practice* intends to rely on the advice or work of an expert, the professional accountant in public practice* shall determine whether such reliance is warranted. Factors to consider include: 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.

Changes in a Professional Appointment

210.9 A professional accountant in public practice* who is asked to replace another professional accountant in public practice*, or who is considering tendering for an engagement currently held by another professional accountant in public practice*, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an acceptable level* by the application of safeguards. For example, there may be a threat to professional competence and due care if a professional accountant in public practice* accepts the engagement before knowing all the pertinent facts.

* See Definitions for parts A, B and C

Upon being asked to accept an appointment, professional accountants shall undertake the same procedures with all accountants, irrespective of whether the accountant works in public practice or not.*

- 210.10** A professional accountant in public practice* shall evaluate the significance of any threats. Depending on the nature of the engagement, this may require direct communication with the existing accountant* to establish the facts and circumstances regarding the proposed change so that the professional accountant in public practice* 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 to accept the appointment.

Having been asked to accept an appointment, the professional accountant in public practice shall at least seek to contact the existing accountant*. The appropriate procedures are considered further in the Appendix to this Section.*

- 210.11** Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level*. Examples of such safeguards include:

- 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 shall not be accepted;
- Asking the existing accountant* to provide known information on any facts or circumstances that, in the existing accountant's* opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources.

When the threats cannot be eliminated or reduced to an acceptable level* through the application of safeguards, a professional accountant in public practice* shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

Counsel has advised that as far as UK law is concerned, an existing accountant who communicates to a prospective accountant matters damaging to the client or to any individuals concerned with the client's business will have a strong measure of protection were any action for defamation to be brought against the existing accountant* in that the communication will be protected by qualified privilege. This means that the existing accountant* shall not be liable to pay damages for defamatory statements even if they turn out to be untrue, provided that they are made without malice. There is little likelihood of an existing accountant* being held to have acted maliciously provided that:*

- *Only what is sincerely believed to be true is stated; and*

- *Reckless imputations are not made against a client or connected individuals for which there can be no reason to believe they are true.*

210.12 A professional accountant in public practice* may be asked to undertake work that is complementary or additional to the work of the existing accountant*. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. An example of such a safeguard is 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.

In circumstances where the professional accountant is asked to undertake work which is relevant to the work of the existing accountant*, the professional accountant* shall notify the existing accountant* of the proposed work, unless the client provides acceptable reasons why the existing accountant* cannot be informed. The professional accountant* ought to be aware of the risks of undertaking such work without the advantage of communicating with the other accountant. Further guidance on providing second opinions is available in section 230 of this Code.*

210.13 An existing accountant* is bound by confidentiality. Whether that professional accountant* is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and 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.

Circumstances where the professional accountant* is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in section 140 of Part A of this Code.

However, care must be taken when communicating all relevant facts to a professional accountant in situations where the existing accountant* knows or suspects that their client is involved in money laundering or a terrorist activity. Under the UK Money Laundering Regulations 2007, the Terrorism Act 2000 and the Terrorism Act 2006, it is a criminal offence to 'tip off' a money launderer or terrorist. Accordingly:*

- *The prospective accountant shall not specifically enquire whether the existing accountant* has reported suspicions of money laundering or terrorism. Such questions place the existing accountant* in a difficult position and are likely not to be answered. In addition, the prospective accountant shall not ask the existing accountant* whether client identification or 'knowing your client' procedures have been carried out under anti-money laundering legislation. The prospective accountant has responsibility for obtaining information for client identification and 'knowing your client' and this cannot be delegated to the existing accountant*.*

* See Definitions for parts A, B and C

- *Disclosure of money laundering or terrorist suspicion reporting by the existing accountant* to the potential successor shall be avoided because this information may be discussed with the client or former client.*

For further discussion, please refer to the money laundering legislation and guidance (www.icaew.com/moneylaundering) and the ICAEW's Ethics Advisory helpsheet on 'changes in professional appointments' (www.icaew.com/ethicsadvice)

- 210.14** A professional accountant in public practice* will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an existing accountant*. Once that permission is obtained, the existing accountant* shall comply with relevant legal and other regulations governing such requests. Where the existing accountant* provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing accountant*, the proposed accountant shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance* of the client.

If the client fails or refuses to grant the existing accountant permission to discuss the client's affairs with the proposed successor, the existing accountant* shall report this fact to the prospective accountant who shall consider carefully the reason for such failure or refusal when determining whether or not to accept nomination/appointment.*

- 210.15** *Guidance on appropriate procedures to be adopted by professional accountants* relating to changes in professional appointments is included as an Appendix to this Section.*

Transfer of Records

- 210.16** *An existing accountant* shall deal promptly with any reasonable request for the transfer of records and may have the right of particular lien if there are unpaid fees (see section 240 of this Code and 'Documents and records: ownership, lien and right of access' at www.icaew.com/regulations). The courts have held that no lien can exist over books or documents of a registered company which, either by statute or by articles of association of the company, have to be available for public inspection (see 'Documents and records: ownership, lien and rights of access' at www.icaew.com/regulations). It may be necessary for professional accountants* to obtain legal advice prior to the exercise of a lien.*

If the existing accountant has fees outstanding from a client they are entitled to mention this to the potential successor. However, if this is as a result of genuine reservations by the client, this may not be a reason to withhold cooperation with a successor. It may be useful to consider the section on fee disputes in 'Duty on firms to investigate complaints – guidance on how to handle or avoid them' at www.icaew.com/regulations.*

* See Definitions for parts A, B and C

210.17 *The prospective accountant often asks the existing accountant* for information as to the client's affairs. If the client is unable to provide the information and lack thereof might prejudice the client's interests, such information shall be promptly given. In such circumstances, no charge shall normally be made unless there is good reason to the contrary. An example of such a reason would be that a significant amount of work is involved. Where a charge is made, the arrangements shall comply with section 240 of this Code.*

210.18 *Attention is drawn to Chapter 3 of the Audit Regulations and Guidance (www.icaew.com/regulations) relating to access to all relevant information held by the existing accountant in respect of the last audit report and Technical Release AAF 01/08 Access to Information by Successor Auditors (www.icaew.com/technicalreleases).*

Appendix to Section 210 – Changes in Professional Appointments Procedures

Prospective Accountants

- 1** *In the majority of cases, the appropriate procedures for any professional accountant* who is invited to act in succession to another, whether the changeover is at the insistence of the client or of the existing accountant*, is to:*
 - *Explain to the prospective client that there is a professional duty to communicate with the existing accountant*; and*
 - *Request the client (i) to confirm the proposed change in accountant to the existing accountant* and (ii) to authorise the existing accountant* to co-operate with the prospective accountant; and*
 - *Write to the existing accountant* regarding the prospective involvement with the client and request disclosure of any issue or circumstance which might be relevant to the successor's decision to accept or decline the appointment (making oral enquiry if no written reply is forthcoming).*

- 2** *When these procedural steps have been taken, the prospective accountant shall consider, in light of the information received from the existing accountant*, or any other factors, including conclusions reached following discussion with the client, whether:*
 - *To accept the engagement, or*
 - *Accept it only after having addressed any factors arising from the information received from the existing accountant* (this may include imposing conditions on acceptance), or*
 - *Decline it.*

* See Definitions for parts A, B and C

- 3 *The prospective accountant shall ordinarily treat in confidence any information provided by the existing accountant*, unless it is needed to be disclosed to perform the role required (such as making investigations into matters which need the perspective of the client's officers* or senior employees).*
- 4 *In circumstances where the enquiries referred to above are not answered, the prospective accountant shall write to the existing accountant* by recorded delivery service stating an intention to accept the engagement in the absence of a reply within a specific and reasonable period. The prospective accountant is entitled to assume that the existing accountant's* silence implies there was no adverse comment to be made, although this does not obviate the requirement in 210.9 to consider all appropriate circumstances.*
- 5 *A professional accountant* who is nominated as a joint auditor shall communicate with all existing auditors and be guided by similar principles to those set out in relation to nomination as an auditor. Where it is proposed that a joint audit appointment becomes a sole appointment, the surviving auditor shall communicate formally with the other joint auditor as though for a new appointment.*
- 6 *A professional accountant* invited to accept nomination on the death of a sole practitioner shall endeavour to obtain such information as may be needed from the latter's alternate (where appropriate), the administrators of the estate, or other source.*
- 7 *If the prospective accountant accepts the engagement, the prospective accountant shall comply with the relevant legal and regulatory requirements as indicated in paragraph 13.*

Existing accountants*

- 8 *The appropriate procedure for any professional accountant* who receives any communication in terms of the above paragraphs, whether or not the professional accountant* is still in office, is to:*
 - *Answer promptly any communication from the potential successor about the client's affairs; and*
 - *Confirm whether there are any matters about those affairs which the prospective accountant ought to know, explaining them meaningfully, or confirm there are no such matters.*
- 9 *If the existing accountant* has made one or more suspicious activity reports relating to money laundering or terrorism, the existing accountant* shall not disclose that fact to the prospective accountant, or make other disclosures that could amount to tipping off. However, the existing accountant's* legal and professional obligations remain. In order to meet these obligations, the existing accountant* can undertake one or more of the following actions:*
 - *Contact the relevant investigating authority, for example, the Serious Organised Crime Agency (SOCA), to ascertain if appropriate wording can be agreed in a communication;*

* See Definitions for parts A, B and C

- *Include a factual reference to the irregularities; (further discussion is included in the ICAEW's Ethics Advisory Services Practice Helpsheet on Changes in Professional Appointments (www.icaew.com/ethicsadvice));*
- *Consider seeking legal advice.*

Guidance on money laundering reporting requirements in privileged circumstances is included in Technical Release 02/06, available at www.icaew.com/technicalreleases.

- 10** *The above actions are also relevant when the existing accountant* is preparing the required statement of circumstances in accordance with Section 519 of the UK Companies Act 2006, or other similar statutory provisions, of matters connected with ceasing to hold office which, the auditor believes, shall be brought to the notice of the professional accountants*, shareholders or creditors of the client or under the relevant professional and other regulatory bodies. Further guidance can be found in Chapter 3 of the 2008 Audit Regulations and Guidance (www.icaew.com/regulations).*
- 11** *It is best practice for the prospective accountant and the existing accountant* to record in writing such discussions as are referred to in the paragraphs above.*
- 12** *Where the professional accountant* decides to accept nomination/appointment having been given notice of any matters which are the subject of contention between the existing accountant* and the client, the professional accountant* shall be prepared, if requested to do so, to demonstrate to the professional and regulatory investigating authorities that proper consideration has been given to those matters and the relevant legal, regulatory and ethical requirements have been met.*

Further Information

- 13** *Professional accountants'* attention is drawn to additional guidance as follows:*

- *Chapter 3 of the 2008 Audit Regulations and Guidance (www.icaew.com/regulations), in particular technical standards relating to changes in professional appointments and access to relevant information relating to the signed audit report.*
- *ISQC (UK & Ireland) – quality control for firms that perform audits and reviews of historical financial information*, and other assurance and related services engagements (www.frc.org.uk/apb/publications).*
- *Statement of Auditing Standards (www.frc.org.uk/apb/publications):*

ISA 240 (UK and Ireland) – The auditor's responsibility to consider fraud in an audit of financial statements;*

ISA 250 (UK and Ireland) – Consideration of laws and regulations in an audit of financial statements;*

* See Definitions for parts A, B and C

ISA 510 (UK and Ireland) Initial engagements – opening balances and continuing engagements – opening balances.

- *Practice Note 12 (Revised) ‘Money laundering’* (www.frc.org.uk/apb/publications).
- *Anti-money laundering for the Accountancy Sector* (www.icaew.com/regulations).
- *Technical Release 02/06 – ‘Guidance on changes to the money laundering reporting requirements: the exemption from reporting knowledge or suspicion of money laundering formed in privileged circumstances’* (www.icaew.com/technicalreleases).
- *Practice Helpsheet – Changes in a professional appointment* (www.icaew.com/ethicsadvice).

SECTION 220 - CONFLICTS OF INTEREST

220.1 A professional accountant in public practice* shall take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may create threats to compliance with the fundamental principles. For example, a threat to objectivity may be created when a professional accountant in public practice* competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when a professional accountant in public practice* performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.

Subject to the specific provisions, there is, however, nothing improper in a professional accountant in public practice having two clients whose interests are in conflict.*

220.2 A professional accountant in public practice* shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level*. Before accepting or continuing a client relationship or specific engagement, the professional accountant in public practice* shall evaluate the significance of any threats created by business interests or relationships with the client or a third party.

A test is whether a reasonable and informed observer would perceive that the objectivity of professional accountants or their firms* is likely to be impaired. The professional accountants* or their firms* shall be able to satisfy themselves and the client that any conflict can be managed with available safeguards. Attention is also drawn to the ethical conflict resolution process in Part A.*

220.3 Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards is generally necessary:

* See Definitions for parts A, B and C

- (a) Notifying the client of the firm's* business interest or activities that may represent a conflict of interest and obtaining their consent to act in such circumstances; or
- (b) Notifying all known relevant parties that the professional accountant in public practice* is acting for two or more parties in respect of a matter where their respective interests are in conflict and obtaining their consent to so act; or
- (c) Notifying the client that the professional accountant in public practice* does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.

*Professional accountants** attention is drawn to section 240 Fees and other types of remuneration and section 241 Agencies and referrals which provide additional guidance on the ethical and legal considerations relating to these areas, including fiduciary relationships and accounting for commission and other benefits.*

220.4 The professional accountant* shall also determine whether to apply one or more of the following additional safeguards:

- (a) The use of separate engagement teams*;
- (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing);
- (c) Clear guidelines for members of the engagement team* on issues of security and confidentiality;
- (d) The use of confidentiality agreements signed by employees and partners* of the firm*; and
- (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.

220.4a *Where a conflict of interest arises, the preservation of confidentiality, and the perception thereof will be of paramount importance. Therefore firms* shall deploy safeguards, which generally will take the form of information barriers. These information barriers may include the following features:*

- *Ensuring that there is, and continues to be, no overlap between the teams servicing the relevant clients and that each has separate internal reporting lines;*
- *Physically separating, and restricting access to, departments providing different professional services*, or creating such divisions within departments if necessary, so that confidential information about one client is not accessible by anyone providing services to another client where their interests conflict;*

* See Definitions for parts A, B and C

- *Setting strict and carefully defined procedures for dealing with any apparent need to disseminate information beyond a barrier and for maintaining proper records where this occurs.*

The professional accountant shall ensure that the adequacy and effectiveness of the barriers are closely and independently monitored and that appropriate disciplinary sanctions are applied for breaches of them. The overall arrangements shall regularly be reviewed by a designated senior partner*.*

Professional accountants shall note that it has been suggested by the courts that in some circumstances information barriers must be constructed as part of the organisational structure of the firm* to be effective, rather than on an ad hoc basis.*

220.4b *If client service issues render it impracticable to put in place such safeguards or suitable alternatives, it is important that relevant parties, who have conflicts of interest which may result in threats to preservation of confidentiality, are made aware of and agree to the professional accountant* continuing to act for them.*

220.5 *Where a conflict of interest creates a threat to one or more of the fundamental principles, including objectivity, confidentiality, or professional behaviour, that cannot be eliminated or reduced to an acceptable level* through the application of safeguards, the professional accountant in public practice* shall not accept a specific engagement or shall resign from one or more conflicting engagements.*

220.6 *Where a professional accountant in public practice* has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, the professional accountant in public practice* shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.*

Professional accountants' attention is drawn to section 221, Corporate Finance Advice, section 290, Independence* – Audit and review engagements*, section 400, Code of Ethics for Insolvency Practitioners, for guidance on issues arising from certain corporate finance activities, reporting assignments, and insolvency appointments.*

SECTION 221 CORPORATE FINANCE ADVICE

(Updated as regards to changes in legislation as at 1 April 2010)

Introduction

221.0 *The nature of corporate finance activities is wide ranging. Therefore, the threats to a professional accountant's objectivity, integrity and independence* will depend on the nature of the corporate finance activities being provided and the particular circumstances and relationships involved.*

* See Definitions for parts A, B and C

Categories of Corporate Finance Activity

221.1 *Categories of activity covered by this section are as follows:*

- (a) general corporate finance advice;*
- (b) acting as adviser in relation to takeovers and mergers;*
- (c) underwriting and marketing or placing securities on behalf of a client; and*
- (d) acting as sponsor, nominated adviser or corporate adviser under the Listing Rules, the AIM Rules and the PLUS Rules respectively.*

221.2 *Professional accountants* shall note that the guidance given in relation to general corporate finance advice is applicable to all categories of activity.*

General Principles applicable to all Professional Accountants*

Statutory and Other Regulatory Requirements

221.3 *Professional accountants* must be aware of and comply with legislative and regulatory measures and professional guidance governing corporate finance assignments. As a guide, a list of legislative and regulatory measures current at 1 April 2010 is given in Appendix 1 to this section but professional accountants* shall ensure that they are aware of the most up-to-date legislative and regulatory requirements.*

221.4 *Professional accountants* are required to comply with the City Code on Takeovers and Mergers ('the City Code') (see Appendix 2 to this Section) in respect of all relevant takeover transactions involving companies governed by the City Code and shall treat the general principles of the City Code as best practice guidance in respect of other takeover transactions.*

221.5 *Professional accountants* proposing to provide corporate finance advice to a client or his employer shall at the outset draw attention to the legislative and regulatory responsibilities which will apply to the client or his employer. The professional accountant* shall make clear to the client or his employer that, where necessary, legal advice shall be taken. The professional accountant* shall also draw attention to his own responsibilities outlined in this Code and if appropriate, the Auditing Practices Board's Ethical Standards for Auditors (www.frc.org.uk/apb/publications/ethical.cfm) and the Auditing Practices Board's Ethical Standards for Reporting Accountants (www.frc.org.uk/apb/publications/ethical.cfm).*

Acquisition Searches

221.6 *It may be appropriate for a professional accountant* to conduct an acquisition search which could identify another client or his employer as a target provided the search is based solely on information which is not confidential to that client.*

Interests of Shareholders and Owners

221.7 *Professional accountants* shall remain aware when giving advice that they shall have regard to the interests of all shareholders and owners unless they are specifically acting for a single or defined group thereof. This is particularly so*

* See Definitions for parts A, B and C

when advising on a proposal which is stated to be agreed by directors and/or majority shareholders or owners.*

Preparation of Documents

- 221.8** *Any document shall be prepared in accordance with normal professional standards of integrity and objectivity and with a proper degree of care. All statements or observations therein must be capable, taken individually or as a whole, of being justified on an objective examination of the available facts.*
- 221.9** *In order to differentiate the roles and responsibilities of the various advisers, professional accountants* shall ensure that these roles and responsibilities are clearly described in all public documents and circulars and that each adviser is named.*
- 221.10** *Professional accountants* intending to comment on published audited accounts shall act in accordance with paragraphs 221.20-22 below.*

Overseas Transactions

- 221.11** *This section has been drafted with regard to the situation in the UK and the Republic of Ireland. Professional accountants* shall apply the spirit of the guidance, subject to local legislation and regulation, to overseas transactions of a similar nature.*

General Corporate Finance Advice Applicable to Professional Accountants in Public Practice*

- 221.12** *The nature of corporate finance activities is so wide ranging that all the threats to the fundamental principles identified in section 100 and section 200, can arise when professional accountants in public practice* provide corporate finance advice to both assurance clients* and non-assurance clients: the self-interest threat, the self-review threat, the advocacy threat, the familiarity threat and the intimidation threat.*

When advising a non-assurance client there can be no objection to a professional accountant in public practice accepting an engagement which is designed primarily with a view to advancing that client's case, though the professional accountant in public practice* shall be aware that the self-interest threat could arise. Where a non-assurance client has received advice over a period of time on a series of related or unrelated transactions it is likely that, additionally, the familiarity threat may exist. But where a professional accountant in public practice* advises an assurance client* which is subject to a takeover bid or where a professional accountant in public practice* acts as sponsor, nominated adviser or corporate adviser to an assurance client* involved in the issue of securities, the self-interest threat will become more acute and the advocacy threat will arise.*

Some corporate finance activities such as marketing or underwriting of securities contain so strong an element of advocacy as to be incompatible with the objectivity required for the reporting roles of an auditor or reporting accountant. Even where the activities of an auditor or reporting accountant are restricted to ensuring their clients' compliance with the Listing Rules, the AIM Rules or the PLUS Rules it is likely that a self-review threat could arise.

* See Definitions for parts A, B and C

- 221.13** *It may be in the best interests of a company for corporate finance advice to be provided by its auditor and there is nothing improper in the professional accountant in public practice* supporting an assurance client* in this way.*
- 221.14** *A professional accountant in public practice's* objectivity may be seriously threatened if their role involves undertaking the management responsibilities of an assurance client*. Co-ordination tasks, such as initiating and organising meetings, issuing timetables and reporting progress, are unlikely to threaten reporting objectivity. When involved in negotiations on behalf of an assurance client*, the professional accountant in public practice* shall ensure that he does not assume the role of taking decisions for a client which would prejudice reporting objectivity. Accordingly, the professional accountant in public practice* shall ensure that the client takes full responsibility for the final decisions arising from any such negotiations.*

Conflict of Interest

- 221.15** *Professional accountants in public practice* shall be aware of the danger of a conflict of interest arising. All reasonable steps shall be taken to ascertain whether a conflict of interest exists or is likely to arise in the future between a professional accountant in public practice* and his clients, both with regard to new clients and to the changing circumstances of existing clients, and including any implications arising from the possession of confidential information.*
- 221.16** *The attention of professional accountants in public practice* is directed to section 220, 'Conflicts of interest' and to the safeguards indicated in paragraphs 220.3 and 220.4 of that section. Where there appears to be a conflict of interest between clients but after careful consideration the professional accountant in public practice* believes that either the conflict is not material or is unlikely seriously to prejudice the interests of any of those clients and that its safeguards are sufficient, the professional accountant in public practice* may accept or continue the engagement. Unless client confidentiality considerations dictate otherwise it would be advisable, if appropriate, to seek the clients' consent. Considerations that lead to a conclusion to accept or continue the engagement shall be explicitly recorded.*
- 221.17** *Where a professional accountant in public practice* acts or continues to act for two or more clients having obtained consent, if appropriate, in accordance with the previous paragraphs, safeguards will need to be implemented to manage any conflict which arises. The safeguards may include:*
- (a) the use of different partners* and teams for different clients, each having separate internal reporting lines;*
 - (b) all necessary steps being taken to prevent the leakage of confidential information between different teams and sections within the firm*;*
 - (c) regular review of the situation by a senior partner* or compliance officer not personally involved with either client; and*
 - (d) advising the clients to seek additional independent advice, where it is appropriate.*

* See Definitions for parts A, B and C

Any decision on the part of a sole practitioner shall take account of the fact that the safeguards at (a) to (c) of the above paragraph will not be available to him or her. Similar considerations apply to small firms where the number of partners is insufficient to spread the work as indicated above.*

- 221.18** *Where a conflict of interest is so fundamental that it cannot be managed effectively by the implementation of appropriate safeguards and is likely seriously to prejudice the interests of a client, the engagement shall not be accepted or continued even if all relevant clients consent to the engagement.*
- 221.19** *Where a professional accountant in public practice* is required for any reason to disengage from an existing client, the professional accountant in public practice* shall do so as speedily as practicable having regard to the interest of the client.*

Documents for Client and Public Use

- 221.20** *In the case of a document prepared solely for the client and its professional advisers, it shall be a condition of the engagement that the document shall not be disclosed to any third party without the firm's* prior written consent.*
- 221.21** *A professional accountant in public practice* is, in the absence of any indication to the contrary, entitled to assume that a company's published financial information that has been reported on by a professional accountant in public practice* has been prepared properly and in accordance with all relevant Accounting Standards. If a professional accountant in public practice* is commenting in a public document on such financial information and where scope for alternative accounting treatment exists, and the accuracy of the comment or observation is dependent on an assumption as to the actual accounting treatment chosen, that assumption must be stated, together with any other assumptions material to the commentary. Where the professional accountant in public practice* is not in possession of sufficient information to warrant a clear opinion this shall be declared in the document.*
- 221.22** *A professional accountant in public practice* must take responsibility for anything published under his name, provided he consented to such publication, and the published document shall make clear the client for whom the professional accountant in public practice* is acting. To prevent misleading or out-of-context quotations, it shall be a condition of the engagement that, if anything less than the full document is to be published, the text and its context shall be expressly agreed with the professional accountant in public practice*.*

Takeovers and Mergers

City Code Transactions

- 221.23** *Professional accountants in public practice* are reminded that, if in doubt as to the propriety of any aspect of a City Code transaction with which they are involved, they shall consult the Panel on Takeovers and Mergers ('the Takeover Panel'). (See Appendix 2 of this section).*
- 221.24** *Where a professional accountant in public practice* finds itself acting as auditor or reporting accountant for two or more parties involved in a transaction subject to the City Code, a perceived conflict of interest may arise. In such*

* See Definitions for parts A, B and C

circumstances (subject to paragraph 221.26 below) a professional accountant in public practice* may act for more than one party, including both offeror and offeree companies as auditor, as reporting accountants, and in the provision of incidental advice consistent with these roles but must implement adequate safeguards (see paragraph 221.17 above).

Lead Advisers in City Code Transactions

- 221.25** For the purposes of this Section, a 'lead adviser' is the professional accountant in public practice* primarily responsible for advising on, organising and presenting an offer or the response to an offer. This definition would include an 'independent financial adviser' required under Rule 3 of the City Code.
- 221.26** In no circumstances shall a professional accountant in public practice* be a lead adviser to more than one party involved in a transaction subject to the City Code. Where a professional accountant in public practice* finds itself acting in an auditor or reporting accountant role for any party involved in a transaction subject to the City Code, the professional accountant in public practice* shall not act as lead adviser for any party involved, save in the circumstances set out below in paragraphs 221.27–221.29.
- 221.27** A professional accountant in public practice* who is auditor to a target company may be requested to act as lead adviser to a bidder on an offer subject to the City Code. Where the bid is hostile, it is likely that the professional accountant in public practice's* objectivity will be perceived to be prejudiced by its possession of material confidential information on the target and it will not therefore be able to advise on the offer. However, if the bid is agreed, the professional accountant in public practice* may be able to act or continue to act as lead adviser to the bidder with the agreement of the target and subject to the prior approval of the Takeover Panel. The professional accountant in public practice* shall obtain confirmation from its clients that their interests would not be prejudiced if the professional accountant in public practice* were to act or continue to act in both capacities.
- 221.28** Where a professional accountant in public practice* is acting as lead adviser to a company which is involved in a bid subject to the City Code, conflicts of interest for the professional accountant in public practice* may arise due to an existing relationship with a second or subsequent bidder. Providing that the relationship with the second or subsequent bidder is confined to that of auditor or reporting accountant, and subject to the prior approval of the Takeover Panel, the professional accountant in public practice* may continue to act as lead adviser, providing that it is satisfied that the implementation of safeguards (see paragraph 221.27 above) provides the necessary level of protection to each of the clients involved.
- 221.29** Where a professional accountant in public practice* is requested to act as lead adviser to a target company in relation to a bid which is subject to the City Code from a company which is an existing assurance client*, they may act as lead adviser to the target company only with the prior approval of the Takeover Panel.

* See Definitions for parts A, B and C

The ethical guidance for professional accountants in public practice seeking to act for more than one party in a takeover transaction subject to the City Code is summarised in Appendix 3 to this section. Appendix 3 has been prepared only as a useful reference and is not intended to form part of this section.*

Transactions not Subject to the City Code

221.30 *Where a takeover is not subject to the City Code, and there is no substantial public interest involved, a professional accountant in public practice* may, subject to the implementation of appropriate safeguards (see paragraphs 221.16 and 221.17 above), provide financial advice to both sides or to competing bidders. However, the professional accountant in public practice* shall not act as lead adviser to both the target and a bidder in respect of such a transaction. The professional accountant in public practice* shall be alive to the possibility of conflicts of interest arising in relation to minority interests and shall ensure that any such conflicts are addressed. Where appropriate, the advisory client and minority interests shall be advised as to the desirability of the minority interests appointing a wholly independent adviser.*

Underwriting and Marketing of Shares

221.31 *A professional accountant in public practice* who is an auditor or reporting accountant shall not deal in, underwrite or promote shares for their client (see also APB's Ethical Standard 5 and APB's Ethical Standard for Reporting Accountants (www.frc.org.uk/apb/publications/ethical.cfm)). Involvement of this kind would give rise to an advocacy threat, self-review threat and self-interest threat such that the professional accountant in public practice's* objectivity and independence* would be threatened.*

221.32 *It may be appropriate:*

- (a) *for an auditor or reporting accountant otherwise to assist a client in raising capital; or*
- (b) *for an auditor or reporting accountant otherwise to provide independent advice to a client, or its professional advisers, in connection with the issue or sale of shares or securities to the public; or*
- (c) *for an auditor or reporting accountant otherwise to provide advice as sponsor, as an Alternative Investment Market (AIM) nominated adviser or as a PLUS corporate adviser to a company as set out below.*

In these situations the professional accountant in public practice shall adopt steps similar to those described in paragraph 220.3 and 220.4 of section 220 and, additionally, set up procedures to review and identify any potential conflicts of interest which could compromise the professional accountant in public practice's* objectivity.*

Sponsors, Nominated Advisers and Corporate Advisers

221.33 *The attention of professional accountants in public practice* is drawn to:*

* See Definitions for parts A, B and C

- (a) *the UK Listing Authority's Listing Rules when a firm* accepts the responsibilities of a sponsor;*
- (b) *the London Stock Exchange's AIM Rules and, AIM Rules for Nominated Advisers (which include the Eligibility Criteria for Nominated Advisers.) AIM's requirement is that for AIM companies to maintain their trading facility they shall have a nominated adviser at all times. In this context professional accountants in public practice* shall have in place procedures to enable them to identify whether any conflicts exist or are likely to arise in the future before acting as a nominated adviser. Professional accountants in public practice* shall note the policy of the London Stock Exchange that it will not normally allow a nominated adviser to be the reporting accountant to the issuer unless appropriate safeguards are in place as set out in paragraph 221.17 above. Furthermore, professional accountants in public practice* shall note that the London Stock Exchange does not permit a nominated adviser to act for any other party to a transaction or takeover other than its AIM client company. In cases of doubt, professional accountants in public practice* shall consult the London Stock Exchange.*
- (c) *the PLUS Rules and in particular the PLUS Corporate Advisers Handbook when acting as a Corporate Adviser defined by the PLUS Rules. PLUS's requirement is that for PLUS companies to maintain their trading facility they shall have a corporate adviser at all times. In this context professional accountants in public practice* shall have in place procedures to enable them to identify whether any conflicts exist or are likely to arise in the future before acting as a corporate adviser. Professional accountants in public practice* shall note that PLUS does not permit a corporate adviser to act for any other party to a transaction or takeover other than its PLUS client company. In cases of doubt, professional accountants in public practice* shall consult PLUS.*

221.34 *Considerable care needs to be taken if a professional accountant in public practice* is also to act as sponsor, nominated adviser or corporate adviser to an assurance client*. A threat to the objectivity of the auditor or reporting accountant can arise as the duties of a sponsor, nominated adviser or corporate adviser are different from those of an auditor or reporting accountant and are owed to a different party. Although it is quite possible that no conflict will arise between the two roles, professional accountants in public practice* need to recognise the possibility of conflicts arising, particularly if the role of sponsor, nominated adviser or corporate adviser is to include any advocacy of the directors'* views or if the transaction is to involve any issue of securities. To comply with the requirements of paragraph 221.31 above, where there is an issue of securities associated with such a transaction, a separate broker shall be appointed to take responsibility for any underwriting or marketing of the company's shares.*

Appendix 1 to Section 221 – Corporate Finance Advice

Information on Statutory and Other Regulatory and Professional Requirements

* See Definitions for parts A, B and C

For the assistance of professional accountants a list of the relevant legislative and regulatory measures and professional guidance is set out below. This reflects the position as at **1 April 2010**. Professional accountants* shall be aware that this list may be subject to variation in the future and when undertaking corporate finance assignments professional accountants* shall ensure they are aware of the current status of the list.*

- 1** *The Financial Services and Markets Act 2000, the Companies Act 1985 as amended, the Companies Act 2006, Part V of the Criminal Justice Act 1993 and, where applicable, the requirements of the Financial Services Authority's Handbook (www.fsa.gov.uk/Pages/handbook) or the ICAEW's Designated Professional Body Handbook (www.icaew.com/dpb).*
 - 2** *The City Code on Takeovers and Mergers (the 'City Code').*
 - 3** *The Financial Services Authority Handbook which includes:*
 - *the Listing Rules;*
 - *the Prospectus Rules;*
 - *the Disclosure and Transparency Rules; and*
 - *the London Stock Exchange's AIM Rules and AIM Rules for Nominated Advisers (which include the Eligibility Criteria for Nominated Advisers)*
 - 4** *The PLUS Market Corporate Adviser Handbook.*
 - 5** *The Admission and Disclosure Standards of the London Stock Exchange.*
 - 6** *The Auditing Practices Board's Ethical Standards, in particular ES 5 Non-Audit Services Provided to Audit clients* and the Ethical Standard for Reporting Accountants (www.frc.org.uk/apb/publications).*
- And in the Republic of Ireland:*
- 7** *Investment Intermediaries Act, 1995 as amended by the Investor Compensation Act, 1998 and the Insurance Act, 2000 ('IIA'), and where applicable the requirements of the Central Bank of Ireland's Rule Book or the ICAEW's Investment Business Regulations and Guidance.*
 - 8** *Irish Takeover Panel Act, 1997.*
 - 9** *The Listing Rules of the Irish Stock Exchange: the IEX Rules.*
 - 10** *Code of Conduct issued by the Central Bank of Ireland under Section 37 of the IIA, as amended by S. 30 of the Insurance Act 2000.*
 - 11** *European Communities (Takeover Bids (Directive 2004/25/EC) Regulations 2006 (RoI).*

* See Definitions for parts A, B and C

12 *Investment Funds, Companies and Miscellaneous Provisions Act, 2005 (RoI).*

13 *Market Abuse (Directive 2003/6/EC) Regulations 2005 (RoI).*

14 *Prospectus (Directive 2003/71/EC) Regulations 2005.*

Appendix 2 to Section 221 – Corporate Finance Advice

1 *A professional accountant in public practice* who provides takeover services for clients is required to comply with the City Code and with all rulings made and guidance issued under it by the Panel on Takeovers and Mergers ('the Takeover Panel').*

2 *Accordingly a professional accountant in public practice* proposing to provide takeover services to a client shall at the outset:*

(a) *explain that these responsibilities will apply; and*

(b) *include in the terms of the engagement recognition of the professional accountant in public practice's* obligation to comply with the City Code including any steps which the professional accountant in public practice* may be obliged to take in performing those responsibilities. A specimen clause for the engagement letter is set out in paragraph 3 below.*

Specimen Clause for Engagement Letters

3 *The client agrees and acknowledges that where the services provided by the professional accountant in public practice* relate to a transaction within the scope of the City Code, the client and the professional accountant in public practice* will comply with the provisions of the City Code and will observe the terms of the Guidance Note published by the Institutes of Chartered Accountants relevant to such services or transactions. In particular, the client acknowledges that:*

(a) *if the client or its advisers or agents fail to comply with the City Code then the professional accountant in public practice* may withdraw from acting for the client; and*

(b) *the professional accountant in public practice* is obliged to supply to the Takeover Panel any information, books, documents or other records concerning the services or transaction which the Takeover Panel may require.*

Scope of Takeover Services

4 *Takeover services means any professional services* provided by a professional accountant in public practice* to a client in connection with a transaction to which the City Code applies.*

5 *The kinds of activities most commonly relevant for this purpose include:*

(a) *acting as financial adviser to one of the parties (for example, as 'Rule 3 adviser' to the offeree company);*

* See Definitions for parts A, B and C

- (b) *reporting on profit forecasts and/or valuations for the purposes of takeover documents;*
- (c) *conducting acquisition searches for clients, and introducing clients to other parties with a view to effecting transactions;*
- (d) *advising in relation to acquisitions and disposals of securities of companies which are subject to City Code.*
- (e) *acting as a reporting accountant where both the City Code and the Listing Rules or Take Over Rules apply.*

6 *Whilst the City Code does not define precisely the range of activities and transactions within its scope, paragraph 3 of the Introduction to the City Code describes the companies and transactions which are subject to the City Code. In practice, those engaged in providing takeover services rarely experience difficulty in determining whether the City Code is or may be relevant to the activities proposed to be undertaken for any particular client. In cases of any doubt the Takeover Panel shall be consulted.*

Special Responsibilities

- 7** *A professional accountant in public practice* who has provided or is providing takeover services to a client shall:*
- (a) *supply to the Takeover Panel any information, books, documents or other records concerning the relevant transaction or arrangement which the Takeover Panel may properly require and which are in the possession or under the control of the professional accountant in public practice*; and*
 - (b) *otherwise render all such assistance as the professional accountant in public practice* is reasonably able to give to the Takeover Panel, provided that in each case the relevant information, books, documents or other records were acquired by the professional accountant in public practice* in the course of providing the relevant takeover services.*
- 8** *Except with the consent of the Takeover Panel, a professional accountant in public practice* shall not provide or continue to provide any takeover services to any person if the Takeover Panel has stated that it considers that such a person is not likely to comply with the standards of conduct for the time being expected in the United Kingdom concerning the practices of those involved in takeovers, mergers or substantial acquisitions of shares and the Takeover Panel has not subsequently indicated a change in this view. A person to whom this paragraph applies will normally have been named in a statement published by the Takeover Panel, inter alia, for the purposes of Rule 4.3.1 of the Financial Services Authority's Handbook on Market Conduct.*
- 9** *If professional accountants in public practice* have included in the engagement letter agreed with the client a provision as outlined in paragraph 3 above, they will be able to discharge their responsibilities under paragraph 7 and/or 8 above, without any breach of confidentiality or duty to the client. While professional accountants in public practice* shall include such a provision, it is*

* See Definitions for parts A, B and C

recognised that, on occasion, compliance with such responsibilities may still involve a breach of confidentiality to a third party or a breach of some other duty owed to the client. In such circumstances this Appendix is not applicable.

The Financial Services and Markets Act 2000

- 10** The provision of corporate finance services may require authorisation by the Financial Services Authority or a licence under the Designated Professional Body arrangements. However, this Guidance Note applies to all professional accountants in public practice* whether authorised/licensed or not.

Appendix 3 to Section 221 – Corporate Finance Advice

Guidance for firms* seeking to act for more than one party in a takeover subject to the City Code

This table is intended for illustrative purposes only and shall be read in conjunction with section 221, Corporate Finance Advice.

	<i>Bid Situation</i>	<i>Target</i>	<i>Bidder</i>	<i>Subsequent Bidder</i>	<i>Comments</i>
A	<i>Agreed – relationship with one bidder</i>	Ass	Ass	-	<i>Permitted – see paragraph 221.24</i>
B		Adv	Ass	-	<i>Permitted by agreement with the Takeover Panel – see paragraph 221.29</i>
C		Ass	Adv	-	<i>Permitted with conditions – see paragraph 221.27</i>
D		Adv	Adv	-	<i>Prohibited – see paragraph 221.26</i>
E	<i>Hostile one bidder</i>	Ass	Ass	-	<i>Permitted with conditions – see paragraph</i>

* See Definitions for parts A, B and C

					221.24
<i>F</i>		<i>Adv</i>	<i>Ass</i>	-	<i>Permitted by agreement with the Takeover Panel – see paragraph 221.29</i>
<i>G</i>		<i>Ass</i>	<i>Adv</i>	-	<i>Prohibited – see paragraph 221.26 and 221.27</i>
<i>H</i>		<i>Adv</i>	<i>Adv</i>	-	<i>Prohibited – see paragraph 221.26</i>
<i>I</i>	<i>Subsequent bidder emerges</i>	<i>Ass</i>	<i>Ass</i>	<i>Ass</i>	<i>Permitted – see paragraph 221.24</i>
<i>J</i>		<i>Ass</i>	-	<i>Ass</i>	<i>Permitted - see paragraph 221.24</i>
<i>K</i>		<i>Adv</i>	-	<i>Ass</i>	<i>Permitted – see paragraph 221.28</i>
<i>L</i>		<i>Ass</i>	-	<i>Adv</i>	<i>Prohibited – see paragraph 221.26</i>
<i>M</i>		<i>Adv</i>	-	<i>Adv</i>	<i>Prohibited – see paragraph 221.26</i>
<i>N</i>	<i>Acting for rival bidders</i>	-	<i>Ass</i>	<i>Ass</i>	<i>Permitted – see paragraph 221.24</i>

* See Definitions for parts A, B and C

O		-	Adv	Ass	Permitted – see paragraph 221.28
P		-	Ass	Adv	Prohibited – see paragraph 221.26
Q		-	Adv	Adv	Prohibited – see paragraph 221.26

In all of the above cases where professional accountants in public practice may be permitted to act for more than one party, the professional accountants in public practice* must consider the potential threats and put in place the appropriate safeguards as set out in paragraph 221.33. Furthermore, where stated, permission for the professional accountant in public practice* to act for more than one party shall be obtained from the Takeover Panel.*

Key

Adv Professional accountant in public practice acts as lead adviser (see paragraph 221.17)*

Ass Professional accountant in public practice acts as auditor or reporting accountant.*

As regards the application of this guidance to non-audit assurance engagements, professional accountant in public practice's* attention is drawn to the explanatory note contained in the Definitions to Parts A, B and C.*

Notes

- 1 *This matrix does not address a reverse takeover situation, where the offeror is required by the City Code to appoint advisers.*
- 2 *The matrix does not cover the takeover of private companies, except those which are subject to the City Code. Private companies are subject to the general requirements of this Code.*

SECTION 230 - SECOND OPINIONS

230.0 *Opinions expressed informally by a professional accountant* may be acted on, and professional accountants* shall bear in mind the potential consequences of those opinions. Oral opinions shall as a matter of good practice, because of legal implications, be confirmed in writing as soon as practicable after giving the opinion. If a professional accountant* is asked for a 'general opinion' (one relative to a hypothetical situation not related to specific entities or*

* See Definitions for parts A, B and C

circumstances), whether written or oral, the professional accountant shall ensure that the recipient of the opinion understands that it has been given in the context of that particular hypothetical situation only.*

- 230.1** Situations where a professional accountant in public practice* is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may create 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 existence and significance of any 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.

This section does not apply to expert evidence assignments, opinions pursuant to litigation and opinions provided to other firms and their clients jointly.*

- 230.2** When asked to provide such an opinion, a professional accountant in public practice* shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level*. Examples of such safeguards 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.

A professional accountant providing a second opinion will normally need to seek contact with the existing accountant* (particularly if the existing accountant* is engaged as auditor) and the client in order to:*

- *Ascertain the circumstances in which the consultation has been made; and*
- *Be apprised of all the facts relevant to the issue at the time the opinion is given.*

- 230.3** If the company or entity seeking the opinion will not permit communication with the existing accountant*, a professional accountant in public practice* shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

If the client will not allow the opinion-giver to carry out any of the steps referred to above, the opinion-giver must normally decline to act (particularly if the existing accountant is engaged as auditor).*

SECTION 240 - FEES AND OTHER TYPES OF REMUNERATION

- 240.0** *ICAEW does not set charge-out rates or otherwise prescribe the basis for calculating fees, nor does it ordinarily investigate complaints relating solely to the quantum of fees charged. However, professional accountants in public*

* See Definitions for parts A, B and C

practice have certain professional responsibilities in relation to fees as set out in the following paragraphs.*

240.1 When entering into negotiations regarding professional services*, a professional accountant in public practice* may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice* 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, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

240.2 The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Making the client 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.

240.2a *The basis on which fees will be calculated shall be discussed and explained at the earliest opportunity together with, where practicable, the estimated initial fee. Fees shall be determined by reference to:*

- *The seniority and professional expertise of the persons necessarily engaged on the work;*
- *The time expended by each;*
- *The degree of risk and responsibility which the work entails;*
- *The nature of the client's business, the complexity of its operation and the work to be performed;*
- *The priority and importance of the work to the client;*
- *Expenses properly incurred.*

240.2b *The arrangements agreed shall be confirmed in writing prior to the commencement of any engagement, normally in an engagement letter, including a confirmation of any estimate, quotation or other indication, and where the basis of future fees will differ from that of initial fees, the basis on which such fees will be rendered. Where there is no engagement letter the professional accountant in public practice* shall confirm the initial discussion in writing to the client as soon as practicable.*

* See Definitions for parts A, B and C

240.2c *In the case of assurance work, and in particular audit work, professional accountants in public practice* who obtain work having quoted levels of fees which they have reason to believe are significantly lower than existing fees or, for example, those quoted by other tendering firms*, shall be aware that their objectivity and the quality of their work may appear to be threatened by self-interest in securing the client. Such professional accountants in public practice* shall ensure that their work complies with relevant standards, guidelines and regulations and, in particular, quality control procedures.*

240.2d *In the event of a complaint being made to ICAEW where fees were a feature in obtaining or retaining the work, professional accountants in public practice* shall demonstrate that:*

- *The work done was in accordance with relevant standards; and*
- *The client was not misled as to the basis on which fees for the current and/or subsequent years are to be determined.*

240.3 Contingent fees* are widely used for certain types of non-assurance engagements*.¹ They may, however, create threats to compliance with the fundamental principles in certain circumstances. They may create a self-interest threat to objectivity. The existence and significance of such threats will depend on factors including:

- The nature of 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.

240.4 The significance of any such threats shall be evaluated and safeguards applied when necessary to eliminate or reduce them to an acceptable level*. Examples of such safeguards include:

- An advance written agreement with the client as to the basis of remuneration.
- Disclosure to intended users of the work performed by the professional accountant in public practice* and the basis of remuneration.
- Quality control policies and procedures.
- Review by an independent third party of the work performed by the professional accountant in public practice*.

¹ Contingent fees* for non-assurance services provided to audit clients* and other assurance clients* are discussed in sections 290 and 291 of this Part of the Code.

240.4a *In some formal appointments under insolvency legislation, in particular bankruptcies, liquidations and administrations, the remuneration of the professional accountant in public practice* may, by statute, be based on a percentage of:*

- *Realisations or the value of the property with which the professional accountant in public practice* has to deal; and/or*
- *Distributions.*

Consequently, it may not be possible to base the fee on the principle in paragraph 240.4 above.

240.4b *In some circumstances, such as advising on a management buy-in or buy-out, the raising of venture capital, acquisition searches or sales mandates, where no professional opinion is given, it may not be appropriate to charge fees save on a contingent fee* basis: to require otherwise might deprive potential clients of professional assistance, for example where the capacity of the client to pay is dependent upon the success or failure of the venture.*

240.4c *Due diligence assignments, particularly those performed in relation to a prospective transaction, typically involve a high level of risk and responsibility. A higher fee may be charged for such work in respect of a completed transaction than for the same transaction if it is not completed, for whatever reason, provided that the difference reflects any additional risk and responsibility.*

Fee Information and Disputes

240.4d *A professional accountant in public practice* shall furnish, either in the fee account or subsequently on request, and without further charge, such details as are reasonable to enable the client to understand the basis on which the fee account has been prepared.*

240.4e *Where fees rendered without prior agreement exceed, by more than a reasonable amount, a quotation or estimate or indication of fees given by a professional accountant in public practice*, the professional accountant in public practice* shall be prepared to provide the client with a full and detailed explanation of the excess and to take steps to resolve speedily any dispute which arises.*

240.4f *A professional accountant in public practice* whose fees have not been paid may be entitled to retain certain books and papers of a client by exercising a lien and may refuse to pass on information to the client or the successor accountant until those fees are paid (but see section 210, 'Professional appointment'). However, a professional accountant in public practice* who so acts shall be prepared to take reasonable and prompt steps to resolve any dispute relating to the amount of that fee. In respect of any fee dispute, a professional accountant in public practice* shall be aware of the fee arbitration services offered by ICAEW.*

240.4g *Overdue fees may give rise to a perceived or real self-interest threat (see section 280). Similar considerations apply to work-in-progress for a client if billing is unduly deferred.*

* See Definitions for parts A, B and C

Referrals and Commissions

240.5 In certain circumstances, a professional accountant in public practice* may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice* does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice* or other expert. A professional accountant in public practice* may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission creates a self-interest threat to objectivity and professional competence and due care.

240.6 A professional accountant in public practice* may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice* but requires specialist services not offered by the existing accountant*. The payment of such a referral fee also creates a self-interest threat to objectivity and professional competence and due care.

240.7 The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Disclosing to the client any arrangements to pay a referral fee to another professional accountant* for the work referred.
- Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice*.
- Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.

Remuneration of employees would not normally be included within the scope of the payments addressed above.

240.7a *A fiduciary relationship between a professional accountant in public practice* and his or her client will arise where the accountant acts as the client's agent; and/or where the accountant gives professional advice to the client so as to give rise to a relationship which the law would regard as one of 'trust and confidence'. Where a fiduciary relationship exists at the time between a professional accountant in public practice* and a client, the professional accountant in public practice* is legally bound to account to the client for any commission, fee or other benefit received from a third party at any time. ICAEW is advised that the effect is that a professional accountant in public practice* will require the informed consent of the client if the professional accountant in public practice* is to retain the commission, fee or other benefit or any part of it. If professional accountants in public practice* are in doubt as to whether the circumstances give rise to a fiduciary relationship, they are recommended to seek appropriate legal advice.*

* See Definitions for parts A, B and C

240.7b *Under the general law, professional accountants* must adopt one of the following courses in respect of commission receivable²:*

(a) *Account to the client for the commission or other benefit*

This could be effected:

- *By payment of the whole commission or benefit to the client, or*
- *By deducting the amount received from the fees otherwise chargeable to the client and by showing such deduction on the face of the bill.*

(b) *Obtain the client's advance consent to each receipt of commission*

This involves obtaining consent before the commission is received and the firm must disclose, in advance, the actual amount of the commission (or its basis of calculation) and the terms and timing of its payment.*

(c) *Obtain the client's advance general consent to the member's* retaining commission.*

This could be by way of the engagement letter, or by a supplementary agreement, containing explicit wording permitting such retention, such as the following:

'In some circumstances, commissions or other benefits may become payable to us [or to one of our associates] in respect of transactions we [or such associates] arrange for you, in which case you will be notified in writing of the amount and terms of payment. [The fees that would otherwise be payable by you as described above will [or will not] be abated by such amounts.] You consent to such commission or other benefits being retained by us [or, as the case may be, by our associates,] without our, [or their,] being liable to account to you for any such amounts.'

Note:

- i. *Before the client agrees to any such provision, examples must be given of likely commissions that may be received and the likely amounts, and it shall be emphasised that these are only examples and may not cover all receipts in the future. If, in the future, abnormally large commissions are received which were not envisaged when the engagement letter was signed, it would be advisable to obtain specific consent to the retention of those commissions in order to meet any assertion that retention of such commission was not authorised by the engagement letter.*
- ii. *Any further provision which indicated likely levels of commission, and then continued 'Commissions of less than £X will be retained by us, and commissions of more than £X will be divided equally*

² Professional accountants* are reminded that where detailed regulatory requirements cover the same issues as this Code, the regulatory requirements prevail where these are more onerous.

* See Definitions for parts A, B and C

between yourselves and ourselves' might be effective. Members are advised, however, to consult with their lawyers before including such a provision.*

- iii. *Where an existing client of the member* is to sign a new engagement letter containing such a provision as is referred to above, the firm* shall explain that, in the absence of the signed engagement letter, the firm* could retain the commission only if the client gave full and informed consent on each occasion after receiving full disclosure of the amount involved, whereas, once the letter is signed, the firm* can keep the commission.*

(d) *Obtain the client's subsequent consent*

If the member does not obtain the client's consent in one of the ways referred to in paragraph 240.7b above, the commission may still be able to be retained if the client subsequently expressly consents to such retention (on the basis of full disclosure of the amount, terms and timing of payment).*

240.7c *Alternatively professional accountants* will be able to retain the commission if the client (with knowledge of all relevant facts) impliedly consents by acquiescing in such retention, for instance by deciding to proceed with the transaction having been notified both of the fact that the firm* will receive commission and of the full details of that commission.*

240.7d *Even where a fiduciary relationship does not exist, where a professional accountant in public practice* becomes aware that any commission, fee or other benefit may be received (directly or indirectly), there shall be disclosed to the client in writing:*

- *That commission or benefit will result or is likely to result, and*
- *When the fact is known, that such commission or benefit will be received, and*
- *As early as possible, the amount and terms of the benefit to the professional accountant in public practice*.*

240.7e *As regards payments of referral fees, professional accountants in public practice* have a responsibility to ascertain that a referral manner is in accordance with this Code because professional accountants in public practice* must not do, or be seen to do, through others what they may not do themselves. To this end, professional accountants in public practice* shall consider whether there are any indications that the work or client has been initially procured in an unprofessional manner.*

In addition, where needed to complete a referred engagement properly, professional accountants in public practice shall:*

- Satisfy themselves as to the competence and professional standards of staff within their firm* whose work on the engagement it would be their duty to review; and
- Ensure their right of direct access to the client and, in appropriate circumstances, render their own fee account to the client.

240.7f *In the case of insolvency work, Insolvency Practitioners shall have regard to Part D of this Code.*

240.7g *Where an invitation to conduct a statutory audit comes other than directly from the client, the professional accountant in public practice* shall first ensure that the audit appointment has properly been made in accordance with statute. It shall be made clear to all interested parties on all relevant documents that the professional accountant in public practice* is acting as principal, with all that that function implies. In those circumstances, professional accountants in public practice* shall deal directly with the client and shall render their own fee account in addition to complying with the other requirements above.*

240.8 A professional accountant in public practice* may purchase all or part of another firm* on the basis that payments will be made to individuals formerly owning the firm* or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

Attention is drawn to additional requirements in respect of agency and referral arrangements, in section 241.

SECTION 241 AGENCIES AND REFERRALS

241.1 *When referring or receiving referred work or when establishing agency arrangements, which are in effect permanent arrangements for making referrals, professional accountants in public practice* are required to assess threats to compliance with the fundamental principles and to apply safeguards. A referral covers a formal request made in the course of a professional relationship for advice on the selection of a potential professional adviser and may also cover an informal request, regardless of whether there is an existing relationship.*

Attention is drawn to additional requirements in respect of referral fee arrangements, in section 240.

Duty of Care

241.2 *In making a referral, a duty of care may arise. The extent of a duty of care varies according to the circumstances, including whether the exchange or provision of information was solicited or not. A greater duty of care will arise for matters which are reasonably expected to be within a professional accountant in public practice's* knowledge or where a fee is charged. A professional accountant in public practice* needs to look at this from the client's or enquirer's*

* See Definitions for parts A, B and C

point of view and what their expectations would be of what a professional accountant in public practice would be expected to know:*

- *Where a referral fee is received, or where the service referred is in a professional or finance – related sphere, the client (or enquirer) can reasonably presume knowledge by the professional accountant in public practice*. Any limitation of knowledge would clearly need to be explained.*
- *Where the enquiry relates to a service outside the normal sphere of expertise of an accountant and no referral fee is contemplated, then it is reasonable to presume that the enquiry is being made in a personal capacity, unless circumstances suggest otherwise. It is still advisable to express any limitations of knowledge and to clarify, in case of doubt, that any opinion is based on personal experience rather than in a professional capacity.*

241.3 *When making a referral, disclosure of relevant knowledge limitations shall be considered. Professional accountants in public practice* shall consider whether it would be in their interest for such knowledge limitations to be disclosed in writing, according to the circumstances. Factors that a professional accountant in public practice* shall consider when making such a decision include:*

- *The nature of the professional relationship with the enquirer (an existing client, someone who could reasonably be considered to be making the enquiry as a prospective client or a casual enquiry).*
- *The context in which the enquiry is made. Is it professional or personal, casual or formal?*
- *The nature of the personal relationship. Does the enquirer know the professional accountant in public practice* is a Chartered Accountant and are they consulting them as a respected professional?*
- *The scope of enquiry and whether a referral fee is contemplated, as considered in section 240.*
- *The enquirer's expectations.*

241.4 *A referral arises typically, when the professional accountant in public practice* does not have the expertise and/or resource in house to undertake the potential engagement. It follows that the professional accountant in public practice* will not necessarily know enough to be able to completely assess whether the third party is the optimum choice or not. This is an inevitable limitation in most referrals, and what the referral is based on will vary. However, the professional accountant in public practice* shall consider the fitness for purpose of the third party to address the client's needs.*

241.5 *In making that consideration, the professional accountant in public practice*:*

- *Can take account of the professional or regulatory status of the prospective referee;*

* See Definitions for parts A, B and C

- *Is not normally expected to have to make additional enquiries about the prospective referee and can make the assessment based on what is already known.*

241.6 *A referral shall not normally be made to a third party even with a disclaimer, when, taking into account known factors, the professional accountant in public practice* knows of a better alternative. If the client or enquirer insists on being referred to a particular third party and the professional accountant in public practice* believes there is a better alternative, the reference may be made but the client or enquirer shall be made aware of the professional accountant in public practice's* concerns. Where the referral relates to an end product or service, rather than an intermediary, and the professional accountant in public practice* knows there are other alternatives but does not know if they are better, this shall be explained.*

241.7 *If there is a relationship with the third party, for example a family connection or an automatic referral arrangement, there are clear self-interest or familiarity threats and the connection shall be disclosed. This is particularly important where a professional accountant in public practice* is considering recommending the products of another supplier with which there is an agency, and/or a principal* or employee of the professional accountant in public practice's* firm* is a principal* or officer* of the other supplier. If in substance there is a one-to-one relationship between the professional accountant in public practice* and the third party (for example, the professional accountant in public practice* is the only accountant in the area and the third party is the only solicitor), which implies automatic referral, this shall also be disclosed.*

241.8 *In summary, professional accountants in public practice* shall:*

- *Consider any factors they are aware of that would indicate the proposed third party is not fit for purpose in terms of the potential engagement. The professional accountant in public practice* shall take into account what a reasonable person might expect a Chartered Accountant to know;*
- *Make clients (or enquirers), that are proposed to be referred, aware of limitations in knowledge;*
- *Disclose any referral arrangement;*
- *Ensure that any contractual arrangement does not override the needs of an individual client.*

Establishing Agencies

241.9 *The guidance which follows is intended to assist professional accountants in public practice* in their arrangements with other suppliers of services and products.*

241.10 *This section addresses agreements that in effect provide for permanent arrangements for referrals. The issues are considered to be similar to those above for referrals in general except that an agency contract will usually bind the agent in terms of whom it can refer to for particular types of work. When*

* See Definitions for parts A, B and C

professional accountants in public practice are considering the establishment of an agency, the terms of the agency contract (actual or implied) shall not require exclusive referral of all clients regardless of suitability. For example, professional accountants in public practice* shall not be party to an agency by which they are constrained to channel all funds received by it for investment into a single bank/building society. Such a clause would make important safeguards inoperable.*

- 241.11** *Before accepting appointment as auditor of another entity of which they are an agent, professional accountants in public practice* shall consider whether the agency constitutes a material business relationship. See section 290, 'Independence – audit and review engagements.'*
- 241.12** *Professional accountants in public practice* shall not, because of the self-interest threat, enter into any financial arrangements with another supplier either personally or through their firm* which would prejudice the objectivity of themselves or their firm*.*
- 241.13** *Before accepting or continuing an agency with another supplier, professional accountants in public practice* shall satisfy themselves that their ability to discharge their professional obligations to their clients is not compromised.*
- 241.14** *A professional accountant in public practice* shall not in any circumstances conduct its practice in such a manner as to give the impression that the professional accountant* is a principal rather than an agent. This would include considering signs on premises and any other outward signs or literature used. This would relate in particular to agencies with entities such as banks and building societies, where confusion as to status can arise (see also 'The names and letterheads of practising firms' at www.icaew.com/regulations).*
- 241.15** *Firms* in the Republic of Ireland must be authorised under the Investment Intermediaries Act, 1995 to hold an agency with a building society and that arrangement shall relate solely to deposit taking and not for example relate to products of a particular insurance company or unit trust organisation for which the building society is an appointed representative. Firms* holding building society agencies must ensure that their agency agreement contains no obligation which would cause, or would be perceived to cause, them to breach the provisions of either the Act or the Institute of Chartered Accountants in Ireland's Investment Business Regulations and Guidance. Firms* cannot hold agencies with banks.*

Investment Business Agencies and Introductions

- 241.16** *When considering referrals of investment business ('introductions') or the establishment of investment business agencies, professional accountants in public practice* shall apply the general principles and requirements set out in the previous Sections. However, they will also need to consider:*
- *Whether the introduction or agency is permitted by regulation; and*

* See Definitions for parts A, B and C

- Whether the status of the third party investment business provider is compatible with the requirement to give objective advice.

Regulated activities under the Financial Services and Markets Act 2000 (United Kingdom)

241.17 *In order to make a decision about whether an introduction is a regulated activity, the professional accountant in public practice* must look at how the introduction is made and also what type of investment the client is considering (such as life assurance and pensions, unit trusts, shares, mortgages or general insurance). A regulated introduction can only be made under the terms of the Act by a firm* which is licensed by ICAEW as a Designated Professional Body ('DPB') (a licensed firm*) or a firm* which is authorised by the Financial Services Authority ('authorised'). Unauthorised / unlicensed firms* are restricted in that they can only make introductions for general financial advice where no specific type of investment is referred to, or for a restricted range of investments, such as shares and unit trusts. Such introductions can only be made to those authorised firms* who can give independent advice. However, unauthorised / unlicensed firms* can provide information to a client about a third party provided no recommendation is made.*

241.18 *Further guidance on the difference between a regulated introduction and the provision of information in respect of insurance business, and the regulatory consequences thereof, is set out in Schedule 6 to Part 3 of the DPB Handbook, available at www.icaew.com/dpb.*

241.19 *Having established that an introduction can be made in compliance with regulatory requirements, professional accountants in public practice* shall bear in mind the need to provide their clients with objective advice, in compliance with these ethical standards.*

241.20 *Professional accountants in public practice* can become appointed representatives of another authorised firm*. When selecting which authorised firm* to become an appointed representative of, professional accountants in public practice* shall again bear in mind the need to provide their clients with objective advice.*

Regulated Activities under the Investment Intermediaries Act, 1995 (Republic of Ireland)

241.21 *Professional accountants in public practice* may only make an introduction or refer clients to another authorised firm* if they are themselves authorised to conduct investment business under the Investment Intermediaries Act 1995 and where required hold an appropriate letter of appointment.*

241.22 *Professional accountants in public practice* when selecting an authorised firm* shall bear in mind the need to provide their clients with objective advice.*

Status of Investment Business Providers

241.23 *Authorised firms* can fall into the following categories:**

Type of	What the firm* can recommend	Can there generally be
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* See Definitions for parts A, B and C

<i>firm*</i>		introductions to this type of firm*?
<i>Independent</i>	<i>Recommend products from the whole market and offer clients the ability to pay by fee. Only these firms* can describe themselves as independent financial advisers. The client may be able to elect for the adviser to be paid by commission</i>	Yes (241.24 below)
<i>Whole of market (UK only)</i>	<i>Recommend products from the whole market but do not offer clients the ability to pay by fee. The firm* is remunerated by commission.</i>	Yes (241.25 below)
<i>Multi-tied (Multi-agency in Rol)</i>	<i>Recommend the products of more than one product provider with whom the firm* has agreements, but recommends on less than the whole market.</i>	<i>Depends on scope of choice (241.26 below)</i>
<i>Tied</i>	<i>Recommend the products of one product provider.</i>	No (241.27 below)

241.24 *An introduction to an independent firm* would be likely to meet the requirement to give objective advice but professional accountants* in public practice are reminded of the general requirements above.*

241.25 *Professional accountants in public practice* may also regard ‘whole of market’ authorised firms* as equivalent to independent firms* as the method by which the authorised firm* is remunerated (which is the difference between independent and whole of market) is not relevant for the purposes of compliance with this statement.*

241.26 *Professional accountants in public practice* may in some situations be able to introduce to multi-tied firms* and still comply with the ethical requirements (however, see paragraphs 241.16–241.18 above as to whether the introduction can only be made by a DPB licensed firm* or an FSA authorised firm*, if it is a ‘regulated’ activity). Clearly the principal threat is that clients might not be offered the most appropriate choice. The professional accountant in public practice* shall assess the client’s requirements and whether the multi-tied firm* places business with the product providers who account for a large majority of the relevant market or offer the sector of the market which is most suitable for the client’s needs. However, members* must ensure that in making such an assessment, they are not effectively making their own recommendation unless they are able to do so under the terms of a licence or authorisation. The professional accountant in public practice* may decide that this does not restrict the client’s access to the range of product providers to an extent where there is*

* See Definitions for parts A, B and C

any potential detriment. The professional accountant in public practice shall make the client aware of restrictions in the range of investments offered by the firm* to which the client is being referred.*

241.27 *An introduction to a tied firm* restricts the client's ability to obtain independent advice and would therefore not be objective.*

241.28 *Similar considerations to those noted above apply to whether a professional accountant in public practice* shall become an appointed representative under the Financial Services and Markets Act 2000. Thus, for example, a professional firm* cannot become an appointed representative for regulated investment business, of a tied firm* as the agency agreement would probably oblige the firm* to make referrals to the principal in all circumstances and the firm* would be unable to provide objective advice.*

SECTION 250 - MARKETING PROFESSIONAL SERVICES*

250.1 When a professional accountant in public practice* solicits new work through advertising or other forms of marketing, there may be a threat to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behaviour is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.

250.2 A professional accountant in public practice* shall not bring the profession into disrepute when marketing professional services*. The professional accountant in public practice* shall be honest and truthful and not:

- (a) Make exaggerated claims for services offered, qualifications possessed, or experience gained; or
- (b) Make disparaging references or unsubstantiated comparisons to the work of another.

In particular, where professional accountants in public practice seek to make comparisons of their promotional material between their practices or services and those of others, great care will be required. In particular, they shall ensure that such comparisons:*

- *Are objective and not misleading;*
- *Relate to the same services;*
- *Are factual and verifiable; and*
- *Do not discredit or denigrate the practice or services of others.*

Particular care is needed in unclear or subjective claims of size or quality. For example, it is impossible to know whether a claim to be 'the largest firm' in an area is a reference to the number of partners or staff, the number of offices* or*

* See Definitions for parts A, B and C

the amount of fee income. A claim to be 'the best firm' is unlikely to be able to be substantiated.

If the professional accountant in public practice* is in doubt about whether a proposed form of advertising* or marketing is appropriate, the professional accountant in public practice* shall consider consulting with ICAEW.

- 250.3** *A professional accountant in public practice* shall ensure that all advertisements, including letterheads, invoices and other practice documents, comply with the law and conform with the requirements of the relevant Advertising Standards Authority (for example, the British Code of Advertising) notably, as to legality, decency, clarity, honesty and truthfulness.*
- 250.4** *If reference is made in promotional material to fees, the basis on which the fees are calculated, or to hourly or other charging rates, the greatest care shall be taken to ensure that such reference does not mislead as to the precise range of services and the time commitment that the reference is intended to cover. Professional accountants in public practice* are unlikely to be able to comply with the requirements of 250.2 if making a comparison in such material between their fees and the fees of another accounting practice, whether members* or not. A professional accountant in public practice* may offer a free consultation at which fees are discussed.*
- 250.5** *Professional accountants in public practice* shall never promote or seek to promote their services, or the services of other professional accountants in public practice*, in such a way, or to such an extent, as to amount to harassment of a potential client.*
- It shall be noted that special rules apply in relation to the conduct of Insolvency Practice and licensed practitioners shall have regard to the relevant legislation and to Part D. Similarly professional accountants in public practice* whose firm* is registered for the conduct of investment business shall have recourse to the relevant Investment Business Regulations.*
- 250.6** *Further guidance on marketing professional services* is available to members in a helpsheet from the Ethics Advisory Services (www.icaew.com/ethicsadvice). See also sections 210, 'Professional appointment' and 230, 'Second opinions'.*

SECTION 260 - GIFTS AND HOSPITALITY

- 260.1** A professional accountant in public practice*, or an immediate or close family* member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.
- 260.2** The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances,

* See Definitions for parts A, B and C

would consider trivial and inconsequential, a professional accountant in public practice* may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice* may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level*.

- 260.3** A professional accountant in public practice* shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level*. When the threats cannot be eliminated or reduced to an acceptable level* through the application of safeguards, a professional accountant in public practice* shall not accept such an offer.
- 260.4** *Further guidance on dealing with gifts and hospitality in an assurance engagement* is available in paragraph 290.230.*

SECTION 270 - CUSTODY OF CLIENT ASSETS

- 270.1** A professional accountant in public practice* shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a professional accountant in public practice* holding such assets.
- 270.2** The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behaviour and may be a self interest threat to objectivity arising from holding client assets. A professional accountant in public practice* entrusted with money (or other assets) belonging to others shall therefore:
- (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 and any income, dividends, or gains generated, to any persons entitled to such accounting; and
 - (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

Regulations on the procedures required to be adopted by professional accountants holding client monies are available in the 'Clients' money regulations', available at www.icaew.com/regulations. For firms* licensed by ICAEW under the Designated Professional Bodies arrangements, additional requirements are included in Chapter 4 of the Designated Professional Bodies Handbook (www.icaew.com/dpb).*

- 270.3** As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a professional accountant in public practice* shall make appropriate inquiries about the source of such assets and

* See Definitions for parts A, B and C

consider legal and regulatory obligations. For example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the professional accountant* may consider seeking legal advice.

Further guidance on money laundering regulation and legislation is available in 'Anti-money laundering guidance for the accountancy sector' available at www.icaew.com/regulations.

See also 'Document and records: ownership, lien and rights of access' at www.icaew.com/regulations.

SECTION 280 - OBJECTIVITY—ALL SERVICES

- 280.1** A professional accountant in public practice* shall determine when providing any professional service* whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or its directors*, officers* or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.
- 280.2** A professional accountant in public practice* who provides an assurance service shall be independent of the assurance client*. Independence* of mind and in appearance is necessary to enable the professional accountant in public practice* to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Sections 290 and 291 provide specific guidance on independence* requirements for professional accountants* in public practice when performing assurance engagements*.
- 280.3** The existence of threats to objectivity when providing any professional service* will depend upon the particular circumstances of the engagement and the nature of the work that the professional accountant in public practice* is performing.
- 280.4** A professional accountant in public practice* shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level*. Examples of such safeguards 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 charged with governance* of the client.
- If safeguards cannot eliminate or reduce the threat to an acceptable level*, the professional accountant* shall decline or terminate the relevant engagement.

* See Definitions for parts A, B and C

SECTION 290 – INDEPENDENCE* – AUDIT AND REVIEW ENGAGEMENTS

Introduction

- 290.0a** *In accordance with UK legislation, ICAEW has adopted, as regards auditor independence* requirements, the Ethical Standards for Auditors, issued by the Auditing Practices Board ('APB'). Therefore, when conducting audit engagements* in accordance with ISAs (UK and Ireland), professional accountants* shall comply with the requirements of the APB's Ethical Standards for Auditors, including Provisions Available for Small Entities (ES-PASE) (www.frc.org.uk/apb/publications/ethical.cfm). For other audit and assurance engagements* ICAEW's Code may apply (see 290.0c below).*
- 290.0b** *The APB has stated, in ISA (UK and Ireland) 200, that it is not aware of any significant instances where the relevant parts of the IESBA Code of Ethics are more restrictive than the APB's Ethical Standards.*
- 290.0c** *The independence* requirements to be adopted for different types of assurance engagement*, are set out below:*

Type of assurance engagement*	Independence* requirements to be followed
<i>Audit engagements* in accordance with ISAs (UK and Ireland)</i>	<i>The APB's Ethical Standards for Auditors (www.frc.org.uk/apb/publications/ethical.cfm)</i>
<i>Audit engagements* performed in accordance with other standards</i>	<i>Section 290 of this Code or if more convenient to apply, the independence* requirements of the APB's Ethical Standards for Auditors.</i>
<i>Review engagements* (see appendix to section 290)</i>	<i>Section 290 of this Code or if more convenient to apply, the independence* requirements of the APB's Ethical Standards for Auditors.</i>
<i>Other types of assurance engagements*</i>	<i>Section 291 of this Code.</i>

- 290.0d** *Note that the Statements of Investment Circular Reporting Standards (SIRS), issued by the APB require compliance with the APB's Ethical Standard for Reporting Accountants (ESRA). Accordingly, any professional accountant in public practice* issuing a report that states that the work has been carried out in accordance with the SIRS will need to comply with the independence* requirements of the ESRA.*

* See Definitions for parts A, B and C

Structure of Section

- 290.1** This section addresses the independence* requirements for audit engagements* and review engagements*, which are assurance engagements* in which a professional accountant in public practice* expresses a conclusion on financial statements*. Such engagements comprise audit and review engagements* to report on a complete set of financial statements* and a single financial statement*. independence* requirements for assurance engagements* that are not audit or review engagements* are addressed in section 291.
- 290.2** In certain circumstances involving audit engagements* where the audit report includes a restriction on use and distribution and provided certain conditions are met, the independence* requirements in this section may be modified as provided in paragraphs 290.500 to 290.514. The modifications are not permitted in the case of an audit of financial statements* required by law or regulation.
- 290.3** In this section, the term(s):
- “Audit,” “audit team*,” “audit engagement*,” “audit client*” and “audit report” includes review, review team*, review engagement*, review client* and review report; and
 - “Firm*” includes network firm*, except where otherwise stated.

A Conceptual Framework Approach to independence*

- 290.4** In the case of audit engagements*, it is in the public interest and, therefore, required by this Code of Ethics, that members of audit teams*, firms and network firms* shall be independent of audit clients*.
- 290.5** The objective of this section is to assist firms and members of audit teams* in applying the conceptual framework approach described below to achieving and maintaining independence*.
- 290.6** Independence* comprises:
- (a) independence* of Mind
- The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.
- (b) independence* in Appearance
- The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s*, or a member of the audit team’s*, integrity, objectivity or professional scepticism has been compromised.

290.7 The conceptual framework approach shall be applied by professional accountants* to:

- (a) Identify threats to independence*;
- (b) Evaluate the significance of the threats identified; and
- (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level*.

When the professional accountant* determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level*, the professional accountant* shall eliminate the circumstance or relationship creating the threats or decline or terminate the audit engagement*.

A professional accountant* shall use professional judgment in applying this conceptual framework.

290.8 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence*. It is impossible to define every situation that creates threats to independence* and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of audit teams* to identify, evaluate, and address threats to independence*. The conceptual framework approach assists professional accountants* in practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence* and can deter a professional accountant* from concluding that a situation is permitted if it is not specifically prohibited.

290.9 Paragraphs 290.100 and onwards describe how the conceptual framework approach to independence* is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence*.

290.10 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit team*, a firm* shall identify and evaluate threats to independence*. If the threats are not at an acceptable level*, and the decision is whether to accept an engagement or include a particular individual on the audit team*, the firm* shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level*. If the decision is whether to continue an engagement, the firm* shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level* or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence* comes to the attention of the firm* during the engagement, the firm* shall evaluate the significance of the threat in accordance with the conceptual framework approach.

* See Definitions for parts A, B and C

290.11 Throughout this section, reference is made to the significance of threats to independence*. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.

290.12 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm* for actions related to independence* because responsibility may differ depending on the size, structure and organisation of a firm*. The firm* is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence* is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing require the engagement partner* to form a conclusion on compliance with the independence* requirements that apply to the engagement.

Networks* and Network firms*

290.13 If a firm* is deemed to be a network firm*, the firm* shall be independent of the audit clients* of the other firms within the network* (unless otherwise stated in this Code). The independence* requirements in this section that apply to a network firm* apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm* irrespective of whether the entity itself meets the definition of a firm*.

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

290.15 The judgment as to whether the larger structure is a network* shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network* exists. This judgment shall be applied consistently throughout the network*.

290.16 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network*. However, the sharing of immaterial costs does not in itself create a network*. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network*. Further, an association between a firm* and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network*.

290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network*. This could be achieved by contract or other means.

* See Definitions for parts A, B and C

- 290.18** Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network*. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
- 290.19** Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network*. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm* merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service*.
- 290.20** Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network*. A common brand name includes common initials or a common name. A firm* is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm* name, when a partner* of the firm* signs an audit report.
- 290.21** Even though a firm* does not belong to a network* and does not use a common brand name as part of its firm* name, it may give the appearance that it belongs to a network* if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm* describes such memberships, a perception may be created that the firm* belongs to a network*.
- 290.22** If a firm* sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm*, or an element of the name, even though it is no longer connected to the firm*. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms*. Those entities shall determine how to disclose that they are not network firms* when presenting themselves to outside parties.
- 290.23** Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network*. Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records;
 - Partners* and staff;
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements*;
 - Audit methodology or audit manuals; and
 - Training courses and facilities.

* See Definitions for parts A, B and C

290.24 The determination of whether the professional resources shared are significant, and therefore the firms are network firms*, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Public interest entities*

290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities* are:

- (a) All listed entities*; and
- (b) Any entity:
 - (i) Defined by regulation or legislation as a public interest entity* or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence* requirements that apply to the audit of listed entities*. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

290.26 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities* because they have a large number and wide range of stakeholders. Factors to be considered include:

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

Related Entities

290.27 In the case of an audit client* that is a listed entity*, references to an audit client* in this section include related entities of the client (unless otherwise stated). For all other audit clients*, references to an audit client* in this section include related entities over which the client has direct or indirect control. When the audit team* knows or has reason to believe that a relationship or circumstance involving another related entity* of the client is relevant to the evaluation of the firm's* independence* from the client, the audit team* shall

* See Definitions for parts A, B and C

include that related entity* when identifying and evaluating threats to independence* and applying appropriate safeguards.

Those charged with governance*

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

- (a) consider the firm's* judgments in identifying and evaluating threats to independence*,
- (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level*, and
- (c) take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

Documentation

290.29 Documentation provides evidence of the professional accountant's* judgments in forming conclusions regarding compliance with independence* requirements. The absence of documentation is not a determinant of whether a firm* considered a particular matter nor whether it is independent.

The professional accountant* shall document conclusions regarding compliance with independence* requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

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

Engagement Period

290.30 Independence* from the audit client* is required both during the engagement period and the period covered by the financial statements*. The engagement period starts when the audit team* begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.

* See Definitions for parts A, B and C

- 290.31** When an entity becomes an audit client* during or after the period covered by the financial statements on which the firm will express an opinion*, the firm* shall determine whether any threats to independence* are created by:
- Financial or business relationships with the audit client* during or after the period covered by the financial statements* but before accepting the audit engagement*; or
 - Previous services provided to the audit client*.
- 290.32** If a non-assurance service was provided to the audit client* during or after the period covered by the financial statements* but before the audit team* begins to perform audit services and the service would not be permitted during the period of the audit engagement*, the firm* shall evaluate any threat to independence* created by the service. If a threat is not at an acceptable level*, the audit engagement* shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level*. Examples of such safeguards include:
- Not including personnel who provided the non-assurance service as members of the audit team*;
 - Having a professional accountant* review the audit and non-assurance work as appropriate; or
 - Engaging another firm* to evaluate the results of the non-assurance service or having another firm* re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

Mergers and Acquisitions

- 290.33** When, as a result of a merger or acquisition, an entity becomes a related entity* of an audit client*, the firm* shall identify and evaluate previous and current interests and relationships with the related entity* that, taking into account available safeguards, could affect its independence* and therefore its ability to continue the audit engagement* after the effective date of the merger or acquisition.
- 290.34** The firm* shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code. However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity* is unable by the effective date to effect an orderly transition to another service provider of a non-assurance service provided by the firm*, the firm* shall evaluate the threat that is created by such interest or relationship. The more significant the threat, the more likely the firm's* objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:
- The nature and significance of the interest or relationship;

* See Definitions for parts A, B and C

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

The firm* shall discuss with those charged with governance* the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.

290.35 If those charged with governance* request the firm* to continue as auditor, the firm* shall do so only if:

- (a) the interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of the effective date of the merger or acquisition;
- (b) any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted under this section, will not be a member of the engagement team* for the audit or the individual responsible for the engagement quality control review*; and
- (c) appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance*. Examples of transitional measures include:
 - Having a professional accountant* review the audit or non-assurance work as appropriate;
 - Having a professional accountant*, who is not a member of the firm* expressing the opinion on the financial statements*, perform a review that is equivalent to an engagement quality control review*; or
 - Engaging another firm* to evaluate the results of the non-assurance service or having another firm* re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

290.36 The firm* may have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and may be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance* request the firm* to complete the audit while continuing with an interest or relationship identified in 290.33, the firm* shall do so only if:

- (a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance*;

- (b) Complies with the requirements of paragraph 290.35(b)–(c); and
- (c) Ceases to be the auditor no later than the issuance of the audit report.

290.37 When addressing previous and current interests and relationships covered by paragraphs 290.33 to 290.36, the firm* shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm* shall cease to be the auditor.

290.38 The professional accountant* shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance*, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

Other Considerations

290.39 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence* provided the firm* has appropriate quality control policies and procedures in place, equivalent to those required by International Standards on Quality Control, to maintain independence* and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level*. The firm* shall determine whether to discuss the matter with those charged with governance*.

Paragraphs 290.40 to 290.99 are intentionally left blank.

Application of the Conceptual Framework Approach to independence*

290.100 Paragraphs 290.102 to 290.231 describe specific circumstances and relationships that create or may create threats to independence*. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level* and identify certain situations where no safeguards could reduce the threats to an acceptable level*. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence*. The firm* and the members of the audit team* shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to independence* or reduce them to an acceptable level*.

290.101 Paragraphs 290.102 to 290.126 contain references to the materiality of a financial interest*, loan*, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family* members may be taken into account.

* See Definitions for parts A, B and C

Financial interests*

290.102 Holding a financial interest* in an audit client* may create a self-interest threat. The existence and significance of any threat created depends on:

- (a) the role of the person holding the financial interest*,
- (b) whether the financial interest* is direct or indirect, and
- (c) the materiality of the financial interest*.

290.103 Financial interests* may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such financial interests* are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest* to be a direct financial interest*. Conversely, when the beneficial owner of the financial interest* has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest* to be an indirect financial interest*.

290.104 If a member of the audit team*, a member of that individual's immediate family* or a firm* has a direct financial interest* or a material indirect financial interest* in the audit client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, none of the following shall have a direct financial interest* or a material indirect financial interest* in the client: a member of the audit team*; a member of that individual's immediate family*; or the firm*.

290.105 When a member of the audit team* has a close family* member who the audit team* member knows has a direct financial interest* or a material indirect financial interest* in the audit client*, a self-interest threat is created. The significance of the threat will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

* See Definitions for parts A, B and C

- Removing the individual from the audit team*.

290.106 If a member of the audit team*, a member of that individual's immediate family*, or a firm* has a direct or material indirect financial interest* in an entity that has a controlling interest in the audit client*, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, none of the following shall have such a financial interest*: a member of the audit team*; a member of that individual's immediate family*; and the firm*.

290.107 The holding by a firm's* retirement benefit plan of a direct or material indirect financial interest* in an audit client* creates a self-interest threat. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*.

290.108 If other partners* in the office* in which the engagement partner* practices in connection with the audit engagement*, or their immediate family* members, hold a direct financial interest* or a material indirect financial interest* in that audit client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, neither such partners* nor their immediate family* members shall hold any such financial interests* in such an audit client*.

290.109 The office* in which the engagement partner* practices in connection with the audit engagement* is not necessarily the office* to which that partner* is assigned. Accordingly, when the engagement partner* is located in a different office* from that of the other members of the audit team*, professional judgment shall be used to determine in which office* the partner* practices in connection with that engagement.

290.110 If other partners* and managerial employees who provide non-audit services to the audit client*, except those whose involvement is minimal, or their immediate family* members, hold a direct financial interest* or a material indirect financial interest* in the audit client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, neither such personnel nor their immediate family* members shall hold any such financial interests* in such an audit client*.

290.111 Despite paragraphs 290.108 and 290.110, the holding of a financial interest* in an audit client* by an immediate family* member of :

- (a) a partner* located in the office* in which the engagement partner* practices in connection with the audit engagement*, or
- (b) a partner* or managerial employee who provides non-audit services to the audit client*, is deemed not to compromise independence* if the financial interest* is received as a result of the immediate family* member's employment rights (e.g., through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence* or reduce it to an acceptable level*.

However, when the immediate family* member has or obtains the right to dispose of the financial interest* or, in the case of a stock option, the right to exercise the option, the financial interest* shall be disposed of or forfeited as soon as practicable.

290.112 A self-interest threat may be created if the firm* or a member of the audit team*, or a member of that individual's immediate family*, has a financial interest* in an entity and an audit client* also has a financial interest* in that entity. However, independence* is deemed not to be compromised if these interests are immaterial and the audit client* cannot exercise significant influence over the entity. If such interest is material to any party, and the audit client* can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level*. Accordingly, the firm* shall not have such an interest and any individual with such an interest shall, before becoming a member of the audit team*, either:

- (a) Dispose of the interest; or
- (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.

290.113 A self-interest, familiarity or intimidation threat may be created if a member of the audit team*, or a member of that individual's immediate family*, or the firm*, has a financial interest* in an entity when a director*, officer* or controlling owner of the audit client* is also known to have a financial interest* in that entity. The existence and significance of any threat will depend upon factors such as:

- The role of the professional on the audit team*;
- Whether ownership of the entity is closely or widely held;
- Whether the interest gives the investor the ability to control or significantly influence the entity; and
- The materiality of the financial interest*.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

290.114 The holding by a firm*, or a member of the audit team*, or a member of that individual's immediate family*, of a direct financial interest* or a material indirect financial interest* in the audit client* as a trustee creates a self-interest threat. Similarly, a self-interest threat is created when:

* See Definitions for parts A, B and C

- (a) a partner* in the office* in which the engagement partner* practices in connection with the audit,
- (b) other partners* and managerial employees who provide non-assurance services to the audit client*, except those whose involvement is minimal, or
- (c) their immediate family* members,

hold a direct financial interest* or a material indirect financial interest* in the audit client* as trustee.

Such an interest shall not be held unless:

- (a) Neither the trustee, nor an immediate family* member of the trustee, nor the firm* are beneficiaries of the trust;
- (b) The interest in the audit client* held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit client*; and
- (d) The trustee, an immediate family* member of the trustee, or the firm* cannot significantly influence any investment decision involving a financial interest* in the audit client*.

290.115 Members of the audit team* shall determine whether a self-interest threat is created by any known financial interests* in the audit client* held by other individuals including:

- (a) Partners* and professional employees of the firm*, other than those referred to above, or their immediate family* members; and
- (b) Individuals with a close personal relationship with a member of the audit team*.

Whether these interests create a self-interest threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Removing the member of the audit team* with the personal relationship from the audit team*;

- Excluding the member of the audit team* from any significant decision-making concerning the audit engagement*; or
- Having a professional accountant* review the work of the member of the audit team*.

290.116 If a firm* or a partner* or employee of the firm*, or a member of that individual's immediate family*, receives a direct financial interest* or a material indirect financial interest* in an audit client*, for example, by way of an inheritance, gift or as a result of a merger and such interest would not be permitted to be held under this section, then:

- (a) If the interest is received by the firm*, the financial interest* shall be disposed of immediately, or a sufficient amount of an indirect financial interest* shall be disposed of so that the remaining interest is no longer material;
- (b) If the interest is received by a member of the audit team*, or a member of that individual's immediate family*, the individual who received the financial interest* shall immediately dispose of the financial interest*, or dispose of a sufficient amount of an indirect financial interest* so that the remaining interest is no longer material; or
- (c) If the interest is received by an individual who is not a member of the audit team*, or by an immediate family* member of the individual, the financial interest* shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest* shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest*, a determination shall be made as to whether any safeguards are necessary.

290.117 When an inadvertent violation of this section as it relates to a financial interest* in an audit client* occurs, it is deemed not to compromise independence* if:

- (a) The firm* has established policies and procedures that require prompt notification to the firm* of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest* in the audit client*;
- (b) The actions in paragraph 290.116 (a)–(c) are taken as applicable; and
- (c) The firm* applies other safeguards when necessary to reduce any remaining threat to an acceptable level*. Examples of such safeguards include:
 - Having a professional accountant* review the work of the member of the audit team*; or
 - Excluding the individual from any significant decision-making concerning the audit engagement*.

* See Definitions for parts A, B and C

The firm* shall determine whether to discuss the matter with those charged with governance*.

Loans* and Guarantees

- 290.118** A loan* or a guarantee of a loan*, to a member of the audit team*, or a member of that individual's immediate family*, or the firm* from an audit client* that is a bank or a similar institution may create a threat to independence*. If the loan* or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, neither a member of the audit team*, a member of that individual's immediate family*, nor a firm* shall accept such a loan* or guarantee.
- 290.119** If a loan* to a firm* from an audit client* that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client* or firm* receiving the loan*, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level*. An example of such a safeguard is having the work reviewed by a professional accountant* from a network firm* that is neither involved with the audit nor received the loan*.
- 290.120** A loan*, or a guarantee of a loan*, from an audit client* that is a bank or a similar institution to a member of the audit team*, or a member of that individual's immediate family*, does not create a threat to independence* if the loan* or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans* include home mortgages, bank overdrafts, car loans* and credit card balances.
- 290.121** If the firm* or a member of the audit team*, or a member of that individual's immediate family*, accepts a loan* from, or has a borrowing guaranteed by, an audit client* that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*, unless the loan* or guarantee is immaterial to both (a) the firm* or the member of the audit team* and the immediate family* member, and (b) the client.
- 290.122** Similarly, if the firm* or a member of the audit team*, or a member of that individual's immediate family*, makes or guarantees a loan* to an audit client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*, unless the loan* or guarantee is immaterial to both (a) the firm* or the member of the audit team* and the immediate family* member, and (b) the client.
- 290.123** If a firm* or a member of the audit team*, or a member of that individual's immediate family*, has deposits or a brokerage account with an audit client* that is a bank, broker or similar institution, a threat to independence* is not created if the deposit or account is held under normal commercial terms.

* See Definitions for parts A, B and C

Business Relationships

290.124 A close business relationship between a firm*, or a member of the audit team*, or a member of that individual's immediate family*, and the audit client* or its management, arises from a commercial relationship or common financial interest* and may create self-interest or intimidation threats. Examples of such relationships include:

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

Unless any financial interest* is immaterial and the business relationship is insignificant to the firm* and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, unless the financial interest* is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

In the case of a member of the audit team*, unless any such financial interest* is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team*.

If the business relationship is between an immediate family* member of a member of the audit team* and the audit client* or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*.

290.125 A business relationship involving the holding of an interest by the firm*, or a member of the audit team*, or a member of that individual's immediate family*, in a closely-held entity when the audit client* or a director* or officer* of the client, or any group thereof, also holds an interest in that entity does not create threats to independence* if:

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

* See Definitions for parts A, B and C

290.126 The purchase of goods and services from an audit client* by the firm*, or a member of the audit team*, or a member of that individual's immediate family*, does not generally create a threat to independence* if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

Family and Personal Relationships

290.127 Family and personal relationships between a member of the audit team* and a director* or officer* or certain employees (depending on their role) of the audit client* may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the audit team*, the role of the family member or other individual within the client and the closeness of the relationship.

290.128 When an immediate family* member of a member of the audit team* is:

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

or was in such a position during any period covered by the engagement or the financial statements*, the threats to independence* can only be reduced to an acceptable level* by removing the individual from the audit team*. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level*. Accordingly, no individual who has such a relationship shall be a member of the audit team*.

290.129 Threats to independence* are created when an immediate family* member of a member of the audit team* is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows. The significance of the threats will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Removing the individual from the audit team*; or

* See Definitions for parts A, B and C

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

290.130 Threats to independence* are created when a close family* member of a member of the audit team* is:

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

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

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

290.131 Threats to independence* are created when a member of the audit team* has a close relationship with a person who is not an immediate or close family* member, but who is a director* or officer* or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*. A member of the audit team* who has such a relationship shall consult in accordance with firm* policies and procedures. The significance of the threats will depend on factors such as:

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

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

290.132 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner* or employee of the firm* who is not a member of the audit team* and (b) a director* or officer* of the audit client* or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*. Partners* and employees of the firm* who are aware of such relationships shall consult in accordance with firm* policies and procedures. The existence and significance of any threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

290.133 When an inadvertent violation of this section as it relates to family and personal relationships occurs, it is deemed not to compromise independence* if:

- (a) The firm* has established policies and procedures that require prompt notification to the firm* of any breaches resulting from changes in the employment status of their immediate or close family* members or other personal relationships that create threats to independence*;
- (b) The inadvertent violation relates to an immediate family* member of a member of the audit team* becoming a director* or officer* of the audit client* or being in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*, and the relevant professional is removed from the audit team*; and

* See Definitions for parts A, B and C

- (c) The firm* applies other safeguards when necessary to reduce any remaining threat to an acceptable level*. Examples of such safeguards include:
- (i) Having a professional accountant* review the work of the member of the audit team*; or
 - (ii) Excluding the relevant professional from any significant decision-making concerning the engagement.

The firm* shall determine whether to discuss the matter with those charged with governance*.

Employment with an audit client*

290.134 Familiarity or intimidation threats may be created if a director* or officer* of the audit client*, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*, has been a member of the audit team* or partner* of the firm*.

290.135 If a former member of the audit team* or partner* of the firm* has joined the audit client* in such a position and a significant connection remains between the firm* and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, independence* would be deemed to be compromised if a former member of the audit team* or partner* joins the audit client* as a director* or officer*, or as an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*, unless:

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

290.136 If a former member of the audit team* or partner* of the firm* has joined the audit client* in such a position, and no significant connection remains between the firm* and the individual, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

- The position the individual has taken at the client;
- Any involvement the individual will have with the audit team*;
- The length of time since the individual was a member of the audit team* or partner* of the firm*; and

- The former position of the individual within the audit team* or firm*, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance*.

The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

290.137 If a former partner* of the firm* has previously joined an entity in such a position and the entity subsequently becomes an audit client* of the firm*, the significance of any threat to independence* shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*.

290.138 A self-interest threat is created when a member of the audit team* participates in the audit engagement* while knowing that the member of the audit team* will, or may, join the client some time in the future. Firm* policies and procedures shall require members of an audit team* to notify the firm* when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Removing the individual from the audit team*; or
- A review of any significant judgments made by that individual while on the team.

Audit clients* that are public interest entities*

290.139 Familiarity or intimidation threats are created when a key audit partner* joins the audit client* that is a public interest entity* as:

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

Independence* would be deemed to be compromised unless, subsequent to the partner* ceasing to be a key audit partner*, the public interest entity* had issued audited financial statements* covering a period of not less than twelve months and the partner* was not a member of the audit team* with respect to the audit of those financial statements*.

290.140 An intimidation threat is created when the individual who was the firm's* Senior or Managing Partner* (Chief Executive or equivalent) joins an audit client* that is a public interest entity* as:

- (a) an employee in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements*; or
- (b) a director* or officer* of the entity. Independence* would be deemed to be compromised unless twelve months have passed since the individual was the Senior or Managing Partner* (Chief Executive or equivalent) of the firm*.

290.141 Independence* is deemed not to be compromised if, as a result of a business combination, a former key audit partner* or the individual who was the firm's* former Senior or Managing Partner* is in a position as described in paragraphs 290.139 and 290.140, and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner* from the firm* have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner* is not material to the firm*;
- (c) The former partner* does not continue to participate or appear to participate in the firm's* business or professional activities; and
- (d) The position held by the former partner* with the audit client* is discussed with those charged with governance*.

Temporary Staff Assignments

290.142 The lending of staff by a firm* to an audit client* may create a self-review threat. Such assistance may be given, but only for a short period of time and the firm's* personnel shall not be involved in:

- (a) Providing non-assurance services that would not be permitted under this section; or
- (b) Assuming management responsibilities.

In all circumstances, the audit client* shall be responsible for directing and supervising the activities of the loaned staff.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Conducting an additional review of the work performed by the loaned staff;

* See Definitions for parts A, B and C

- Not giving the loaned staff audit responsibility for any function or activity that the staff performed during the temporary staff assignment; or
- Not including the loaned staff as a member of the audit team*.

Recent Service with an audit client*

290.143 Self-interest, self-review or familiarity threats may be created if a member of the audit team* has recently served as a director*, officer*, or employee of the audit client*. This would be the case when, for example, a member of the audit team* has to evaluate elements of the financial statements* for which the member of the audit team* had prepared the accounting records while with the client.

290.144 If, during the period covered by the audit report, a member of the audit team* had served as a director* or officer* of the audit client*, or was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Consequently, such individuals shall not be assigned to the audit team*.

290.145 Self-interest, self-review or familiarity threats may be created if, before the period covered by the audit report, a member of the audit team* had served as a director* or officer* of the audit client*, or was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm* will express an opinion*. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement*. The existence and significance of any threats will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level*. An example of such a safeguard is conducting a review of the work performed by the individual as a member of the audit team*.

Serving as a Director* or Officer* of an audit client*

290.146 If a partner* or employee of the firm* serves as a director* or officer* of an audit client*, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level*. Accordingly, no partner* or employee shall serve as a director* or officer* of an audit client*.

* See Definitions for parts A, B and C

290.147 The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

290.148 If a partner* or employee of the firm* serves as Company Secretary for an audit client*, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level*. Despite paragraph 290.146, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*.

290.149 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence*, as long as client management makes all relevant decisions.

Long Association of Senior Personnel (Including Partner* Rotation) with an audit client*

General Provisions

290.150 Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement* over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the audit team*;
- The role of the individual on the audit team*;
- The structure of the firm*;
- The nature of the audit engagement*;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*.

Examples of such safeguards include:

- Rotating the senior personnel off the audit team*;
- Having a professional accountant* who was not a member of the audit team* review the work of the senior personnel; or

* See Definitions for parts A, B and C

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

Audit clients* that are public interest entities*

290.151 In respect of an audit of a public interest entity*, an individual shall not be a key audit partner* for more than seven years. After such time, the individual shall not be a member of the engagement team* or be a key audit partner* for the client for two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team* or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

290.152 Despite paragraph 290.151, key audit partners* whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's* control, be permitted an additional year on the audit team* as long as the threat to independence* can be eliminated or reduced to an acceptable level* by applying safeguards. For example, a key audit partner* may remain on the audit team* for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner*.

290.153 The long association of other partners* with an audit client* that is a public interest entity* creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

- How long any such partner* has been associated with the audit client*;
- The role, if any, of the individual on the audit team*;
- The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance*.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*.

Examples of such safeguards include:

- Rotating the partner* off the audit team* or otherwise ending the partner's* association with the audit client*;
- Regular independent internal or external quality reviews of the engagement.

290.154 When an audit client* becomes a public interest entity*, the length of time the individual has served the audit client* as a key audit partner* before the client becomes a public interest entity* shall be taken into account in determining the timing of the rotation. If the individual has served the audit client* as a key audit partner* for five years or less when the client becomes a public interest entity*, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client* as a key

* See Definitions for parts A, B and C

audit partner* for six or more years when the client becomes a public interest entity*, the partner* may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.

290.155 When a firm* has only a few people with the necessary knowledge and experience to serve as a key audit partner* on the audit of a public interest entity*, rotation of key audit partners* may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner* rotation in such circumstances, an individual may remain a key audit partner* for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

Provision of Non-assurance Services to Audit clients*

290.156 Firms have traditionally provided to their audit clients* a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence* of the firm* or members of the audit team*. The threats created are most often self-review, self-interest and advocacy threats.

290.157 New developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client*. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

290.158 Before the firm* accepts an engagement to provide a non-assurance service to an audit client*, a determination shall be made as to whether providing such a service would create a threat to independence*. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the audit team* has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level* by the application of safeguards, the non-assurance service shall not be provided.

290.159 Providing certain non-assurance services to an audit client* may create a threat to independence* so significant that no safeguards could reduce the threat to an acceptable level*. However, the inadvertent provision of such a service to a related entity*, division or in respect of a discrete financial statement* item of such a client will be deemed not to compromise independence* if any threats have been reduced to an acceptable level* by arrangements for that related entity*, division or discrete financial statement* item to be audited by another firm* or when another firm* re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.

290.160 A firm* may provide non-assurance services that would otherwise be restricted under this section to the following related entities of the audit client*:

- (a) An entity, which is not an audit client*, that has direct or indirect control over the audit client*;

- (b) An entity, which is not an audit client*, with a direct financial interest* in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity, which is not an audit client*, that is under common control with the audit client*.

If it is reasonable to conclude that (a) the services do not create a self-review threat because the results of the services will not be subject to audit procedures and (b) any threats that are created by the provision of such services are eliminated or reduced to an acceptable level* by the application of safeguards.

290.161 A non-assurance service provided to an audit client* does not compromise the firm's* independence* when the client becomes a public interest entity* if:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients* that are not public interest entities*;
- (b) Services that are not permitted under this section for audit clients* that are public interest entities* are terminated before or as soon as practicable after the client becomes a public interest entity*; and
- (c) The firm* applies safeguards when necessary to eliminate or reduce to an acceptable level* any threats to independence* arising from the service.

Management Responsibilities

290.162 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

290.163 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;
- Deciding which recommendations of the firm* or other third parties to implement;
- Taking responsibility for the preparation and fair presentation of the financial statements* in accordance with the applicable financial reporting framework; and

* See Definitions for parts A, B and C

- Taking responsibility for designing, implementing and maintaining internal control.

290.164 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an audit client* of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.165 If a firm* were to assume a management responsibility for an audit client*, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level*. For example, deciding which recommendations of the firm* to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm* becomes too closely aligned with the views and interests of management. Therefore, the firm* shall not assume a management responsibility for an audit client*.

290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client*, the firm* shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm* inadvertently making any significant judgments or decisions on behalf of management. The risk is further reduced when the firm* gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

Preparing Accounting Records and Financial statements*

General Provisions

290.167 Management is responsible for the preparation and fair presentation of the financial statements* in accordance with the applicable financial reporting framework. These responsibilities include:

- Originating or changing journal entries, or determining the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

290.168 Providing an audit client* with accounting and bookkeeping services, such as preparing accounting records or financial statements*, creates a self-review threat when the firm* subsequently audits the financial statements*.

290.169 The audit process, however, necessitates dialogue between the firm* and management of the audit client*, which may involve:

* See Definitions for parts A, B and C

- the application of accounting standards or policies and financial statements* disclosure requirements,
- the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities, or
- proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence*.

290.170 Similarly, the client may request technical assistance from the firm* on matters such as resolving account reconciliation problems or analysing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements* from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence* provided the firm* does not assume a management responsibility for the client.

Audit clients* that are not public interest entities*

290.171 The firm* may provide services related to the preparation of accounting records and financial statements* to an audit client* that is not a public interest entity* where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level*. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions for which the client has determined or approved the appropriate account classification;
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements* based on information in the trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit team*; or
- If such services are performed by a member of the audit team*, using a partner* or senior staff member with appropriate expertise who is not a member of the audit team* to review the work performed.

Audit clients* that are public interest entities*

290.172 Except in emergency situations, a firm* shall not provide to an audit client* that is a public interest entity* accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm* will express an opinion* or financial information which forms the basis of the financial statements*.

290.173 Despite paragraph 290.172, a firm* may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements* or other financial information, of a routine or mechanical nature for divisions or related entities of an audit client* that is a public interest entity* if the personnel providing the services are not members of the audit team* and:

- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm* will express an opinion*; or
- (b) The services relate to matters that are collectively immaterial to the financial statements* of the division or related entity*.

Emergency Situations

290.174 Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit clients* in emergency or other unusual situations when it is impractical for the audit client* to make other arrangements. This may be the case when (a) only the firm* has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements*, and (b) a restriction on the firm's* ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

- (a) Those who provide the services are not members of the audit team*;
- (b) The services are provided for only a short period of time and are not expected to recur; and
- (c) The situation is discussed with those charged with governance*.

Valuation Services

General Provisions

290.175 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

290.176 Performing valuation services for an audit client* may create a self-review threat. The existence and significance of any threat will depend on factors such as:

* See Definitions for parts A, B and C

- Whether the valuation will have a material effect on the financial statements*.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The availability of established methodologies and professional guidelines.
- For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
- The reliability and extent of the underlying data.
- The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the financial statements*.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Having a professional who was not involved in providing the valuation service review the audit or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement*.

290.177 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

290.178 If a firm* is requested to perform a valuation to assist an audit client* with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements*, the provisions included in paragraph 290.191 apply.

Audit clients* that are not public interest entities*

290.179 In the case of an audit client* that is not a public interest entity*, if the valuation service has a material effect on the financial statements on which the firm* will express an opinion* and the valuation involves a significant degree of subjectivity, no safeguards could reduce the self-review threat to an acceptable level*. Accordingly a firm* shall not provide such a valuation service to an audit client*.

* See Definitions for parts A, B and C

Audit clients* that are public interest entities*

290.180 A firm* shall not provide valuation services to an audit client* that is a public interest entity* if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm* will express an opinion*.

Taxation Services

290.181 Taxation services comprise a broad range of services, including:

- Tax return preparation;
- Tax calculations for the purpose of preparing the accounting entries;
- Tax planning and other tax advisory services; and
- Assistance in the resolution of tax disputes.

While taxation services provided by a firm* to an audit client* are addressed separately under each of these broad headings; in practice, these activities are often interrelated.

290.182 Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as (a) the system by which the tax authorities assess and administer the tax in question and the role of the firm* in that process, (b) the complexity of the relevant tax regime and the degree of judgment necessary in applying it, (c) the particular characteristics of the engagement, and (d) the level of tax expertise of the client's employees.

Tax Return Preparation

290.183 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit client* to the tax authorities' requests for additional information and analysis (including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority deems appropriate. Accordingly, providing such services does not generally create a threat to independence* if management takes responsibility for the returns including any significant judgments made.

Tax Calculations for the Purpose of Preparing Accounting Entries **Audit clients* that are not public interest entities***

290.184 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client* for the purpose of preparing accounting entries that will be subsequently audited by the firm* creates a self-review threat. The significance

* See Definitions for parts A, B and C

of the threat will depend on (a) the complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them, (b) the level of tax expertise of the client's personnel, and (c) the materiality of the amounts to the financial statements*. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service;
- If the service is performed by a member of the audit team*, using a partner* or senior staff member with appropriate expertise who is not a member of the audit team* to review the tax calculations; or
- Obtaining advice on the service from an external tax professional.

Audit clients* that are public interest entities*

290.185 Except in emergency situations, in the case of an audit client* that is a public interest entity*, a firm* shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm* will express an opinion*.

290.186 The preparation of calculations of current and deferred tax liabilities (or assets) for an audit client* for the purpose of the preparation of accounting entries, which would otherwise not be permitted under this section, may be provided to audit clients* in emergency or other unusual situations when it is impractical for the audit client* to make other arrangements. This may be the case when (a) only the firm* has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets), and (b) a restriction on the firm's* ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

- (a) Those who provide the services are not members of the audit team*;
- (b) The services are provided for only a short period of time and are not expected to recur; and
- (c) The situation is discussed with those charged with governance*.

Tax Planning and Other Tax Advisory Services

290.187 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

290.188 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements*. The existence and significance of any threat will depend on factors such as:

* See Definitions for parts A, B and C

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements*;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements*;
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements* and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework;
- The level of tax expertise of the client's employees;
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements*.

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to independence*.

290.189 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit team* on the service and review the financial statement* treatment;
- Obtaining advice on the service from an external tax professional; or
- Obtaining pre-clearance or advice from the tax authorities.

290.190 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements* and:

- (a) The audit team* has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm* will express an opinion*;

* See Definitions for parts A, B and C

The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, a firm* shall not provide such tax advice to an audit client*.

290.191 In providing tax services to an audit client*, a firm* may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the financial statements*, the provisions included in paragraphs 290.175 to 290.180 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the financial statements* (i.e. the financial statements* are only affected through accounting entries related to tax), this would not generally create threats to independence* if such effect on the financial statements* is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements*, the existence and significance of any threat created will depend upon factors such as:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service;
- Having a professional review the audit work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

Assistance in the Resolution of Tax Disputes

290.192 An advocacy or self-review threat may be created when the firm* represents an audit client* in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. The existence and significance of any threat will depend on factors such as:

- Whether the firm* has provided the advice which is the subject of the tax dispute;
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm* will express an opinion*;

- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice;
- Whether the proceedings are conducted in public; and
- The role management plays in the resolution of the dispute.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit team* on the services and review the financial statement* treatment; or
- Obtaining advice on the service from an external tax professional.

290.193 Where the taxation services involve acting as an advocate for an audit client* before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements on which the firm* will express an opinion*, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level*. Therefore, the firm* shall not perform this type of service for an audit client*. What constitutes a “public tribunal or court” shall be determined according to how tax proceedings are heard in the particular jurisdiction.

290.194 The firm* is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analysing the tax issues) for the audit client* in relation to the matter that is being heard before a public tribunal or court.

Internal Audit Services

General Provisions

290.195 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance*. Internal audit activities may include:

- (a) Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;
- (b) Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;
- (c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and

* See Definitions for parts A, B and C

- (d) Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

290.196 Internal audit services involve assisting the audit client* in the performance of its internal audit activities. The provision of internal audit services to an audit client* creates a self-review threat to independence* if the firm* uses the internal audit work in the course of a subsequent external audit. Performing a significant part of the client's internal audit activities increases the possibility that firm* personnel providing internal audit services will assume a management responsibility. If the firm's* personnel assume a management responsibility when providing internal audit services to an audit client*, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, a firm's* personnel shall not assume a management responsibility when providing internal audit services to an audit client*.

290.197 Examples of internal audit services that involve assuming management responsibilities include:

- (a) Setting internal audit policies or the strategic direction of internal audit activities;
- (b) Directing and taking responsibility for the actions of the entity's internal audit employees;
- (c) Deciding which recommendations resulting from internal audit activities shall be implemented;
- (d) Reporting the results of the internal audit activities to those charged with governance* on behalf of management;
- (e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;
- (f) Taking responsibility for designing, implementing and maintaining internal control; and
- (g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm* is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a)–(f).

290.198 To avoid assuming a management responsibility, the firm* shall only provide internal audit services to an audit client* if it is satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;

* See Definitions for parts A, B and C

- (b) The client's management or those charged with governance* reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's management reports to those charged with governance* the significant findings and recommendations resulting from the internal audit services.

290.199 When a firm* uses the work of an internal audit function, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm* accepts an engagement to provide internal audit services to an audit client*, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility that the audit team* will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm*. The significance of the threat will depend on factors such as:

- The materiality of the related financial statement* amounts;
- The risk of misstatement of the assertions related to those financial statement* amounts; and
- The degree of reliance that will be placed on the internal audit service.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. An example of such a safeguard is using professionals who are not members of the audit team* to perform the internal audit service.

Audit clients* that are public interest entities*

290.200 In the case of an audit client* that is a public interest entity*, a firm* shall not provide internal audit services that relate to:

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements on which the firm* will express an opinion*; or
- (c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm* will express an opinion*.

* See Definitions for parts A, B and C

IT Systems Services

General Provisions

290.201 Services related to information technology (“IT”) systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over financial reporting or generate information that affects the accounting records or financial statements*, or the systems may be unrelated to the audit client’s* accounting records, the internal control over financial reporting or financial statements*. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

290.202 The following IT systems services are deemed not to create a threat to independence* as long as the firm’s* personnel do not assume a management responsibility:

- (a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;
- (b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements*;
- (c) Implementation of “off-the-shelf” accounting or financial information reporting software that was not developed by the firm* if the customisation required to meet the client’s needs is not significant; and
- (d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

Audit clients* that are not public interest entities*

290.203 Providing services to an audit client* that is not a public interest entity* involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client’s accounting records or financial statements on which the firm* will express an opinion* creates a self-review threat.

290.204 The self-review threat is too significant to permit such services unless appropriate safeguards are put in place ensuring that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;

* See Definitions for parts A, B and C

- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

290.205 Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit, a determination shall be made as to whether to provide such non-assurance services only with personnel who are not members of the audit team* and who have different reporting lines within the firm*. The significance of any remaining threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. An example of such a safeguard is having a professional accountant* review the audit or non-assurance work.

Audit clients* that are public interest entities*

290.206 In the case of an audit client* that is a public interest entity*, a firm* shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm* will express an opinion*.

Litigation Support Services

290.207 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval. These services may create a self-review or advocacy threat.

290.208 If the firm* provides a litigation support service to an audit client* and the service involves estimating damages or other amounts that affect the financial statements on which the firm* will express an opinion*, the valuation service provisions included in paragraphs 290.175 to 290.180 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*.

Legal Services

290.209 For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include, depending on the jurisdiction, a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and support and assistance to clients' internal legal departments. Providing legal services to an entity that is an audit client* may create both self-review and advocacy threats.

290.210 Legal services that support an audit client* in executing a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create

* See Definitions for parts A, B and C

self-review threats. The existence and significance of any threat will depend on factors such as:

- The nature of the service;
- Whether the service is provided by a member of the audit team*; and
- The materiality of any matter in relation to the client's financial statements*.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service; or
- Having a professional who was not involved in providing the legal services provide advice to the audit team* on the service and review any financial statement* treatment.

290.211 Acting in an advocacy role for an audit client* in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm* will express an opinion* would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, the firm* shall not perform this type of service for an audit client*.

290.212 When a firm* is asked to act in an advocacy role for an audit client* in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm* will express an opinion*, the firm* shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service; or
- Having a professional who was not involved in providing the legal services advise the audit team* on the service and review any financial statement* treatment.

290.213 The appointment of a partner* or an employee of the firm* as General Counsel for legal affairs of an audit client* would create self-review and advocacy threats that are so significant that no safeguards could reduce the threats to an acceptable level*. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company, and consequently, no member of the firm* shall accept such an appointment for an audit client*.

* See Definitions for parts A, B and C

Recruiting Services

General Provisions

290.214 Providing recruiting services to an audit client* may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:

- The nature of the requested assistance; and
- The role of the person to be recruited.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. In all cases, the firm* shall not assume management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision shall be left to the client.

The firm* may generally provide such services as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post. In addition, the firm* may interview candidates and advise on a candidate's competence for financial accounting, administrative or control positions.

Audit clients* that are public interest entities*

290.215 A firm* shall not provide the following recruiting services to an audit client* that is a public interest entity* with respect to a director* or officer* of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm* will express an opinion*:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

Corporate Finance Services

290.216 Providing corporate finance services such as:

- assisting an audit client* in developing corporate strategies,
- identifying possible targets for the audit client* to acquire,
- advising on disposal transactions,
- assisting finance raising transactions, and
- providing structuring advice

may create advocacy and self-review threats. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the

* See Definitions for parts A, B and C

threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to provide the services; or
- Having a professional who was not involved in providing the corporate finance service advise the audit team* on the service and review the accounting treatment and any financial statement* treatment.

290.217 Providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements* on which the firm* will provide an opinion may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements*;
- The extent to which the outcome of the corporate finance advice will directly affect amounts recorded in the financial statements* and the extent to which the amounts are material to the financial statements*; and
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements* and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Using professionals who are not members of the audit team* to perform the service; or
- Having a professional who was not involved in providing the corporate finance service to the client advise the audit team* on the service and review the accounting treatment and any financial statement* treatment.

290.218 Where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements* and:

- (a) The audit team* has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm* will express an opinion*;

* See Definitions for parts A, B and C

The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level*, in which case the corporate finance advice shall not be provided.

290.219 Providing corporate finance services involving promoting, dealing in, or underwriting an audit client's* shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, a firm* shall not provide such services to an audit client*.

Fees

Fees - Relative Size

290.220 When the total fees from an audit client* represent a large proportion of the total fees of the firm* expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

290.221 A self-interest or intimidation threat is also created when the fees generated from an audit client* represent a large proportion of the revenue from an individual partner's* clients or a large proportion of the revenue of an individual office* of the firm*. The significance of the threat will depend upon factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*.

Examples of such safeguards include:

- Reducing the dependency on the audit client*;

- Having a professional accountant* review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.

Audit clients* that are public interest entities*

290.222 Where an audit client* is a public interest entity* and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.27) represent more than 15% of the total fees received by the firm* expressing the opinion on the financial statements* of the client, the firm* shall disclose to those charged with governance* of the audit client* the fact that the total of such fees represents more than 15% of the total fees received by the firm*, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level*, and apply the selected safeguard:

- Prior to the issuance of the audit opinion on the second year's financial statements*, a professional accountant*, who is not a member of the firm* expressing the opinion on the financial statements*, performs an engagement quality control review* of that engagement or a professional regulatory body performs a review of that engagement that is equivalent to an engagement quality control review* ("a pre-issuance review"); or
- After the audit opinion on the second year's financial statements* has been issued, and before the issuance of the audit opinion on the third year's financial statements*, a professional accountant*, who is not a member of the firm* expressing the opinion on the financial statements*, or a professional regulatory body performs a review of the second year's audit that is equivalent to an engagement quality control review* ("a post-issuance review").

When the total fees significantly exceed 15%, the firm* shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level* and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance* shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm* shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level* and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Fees - Overdue

290.223 A self-interest threat may be created if fees due from an audit client* remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the firm* is expected to require payment of such fees before such audit report is issued. If fees remain

* See Definitions for parts A, B and C

unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. An example of such a safeguard is having an additional professional accountant* who did not take part in the audit engagement* provide advice or review the work performed. The firm* shall determine whether the overdue fees might be regarded as being equivalent to a loan* to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm* to be re-appointed or continue the audit engagement*.

Contingent fees*

290.224 Contingent fees* are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm*. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

290.225 A contingent fee* charged directly or indirectly, for example through an intermediary, by a firm* in respect of an audit engagement* creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, a firm* shall not enter into any such fee arrangement.

290.226 A contingent fee* charged directly or indirectly, for example through an intermediary, by a firm* in respect of a non-assurance service provided to an audit client* may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level* if:

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

Accordingly, such arrangements shall not be accepted.

290.227 For other contingent fee* arrangements charged by a firm* for a non-assurance service to an audit client*, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee* will be determined;

- The nature of the service; and
- The effect of the event or transaction on the financial statements*.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

Compensation and Evaluation Policies

290.228 A self-interest threat is created when a member of the audit team* is evaluated on or compensated for selling non-assurance services to that audit client*. The significance of the threat will depend on:

- The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;
- The role of the individual on the audit team*; and
- Whether promotion decisions are influenced by the sale of such services.

The significance of the threat shall be evaluated and, if the threat is not at an acceptable level*, the firm* shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Removing such members from the audit team*; or
- Having a professional accountant* review the work of the member of the audit team*.

290.229 A key audit partner* shall not be evaluated on or compensated based on that partner's* success in selling non-assurance services to the partner's* audit client*. This is not intended to prohibit normal profit-sharing arrangements between partners* of a firm*.

Gifts and Hospitality

290.230 Accepting gifts or hospitality from an audit client* may create self-interest and familiarity threats. If a firm* or a member of the audit team* accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level*. Consequently, a firm* or a member of the audit team* shall not accept such gifts or hospitality.

* See Definitions for parts A, B and C

Actual or Threatened Litigation

290.231 When litigation takes place, or appears likely, between the firm* or a member of the audit team* and the audit client*, self-interest and intimidation threats are created. The relationship between client management and the members of the audit team* must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the firm* and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

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

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

If such safeguards do not reduce the threats to an acceptable level*, the only appropriate action is to withdraw from, or decline, the audit engagement*.

Paragraphs 290.232 to 290.499 are intentionally left blank.

Reports that Include a Restriction on Use and Distribution

Introduction

290.500 The independence* requirements in section 290 apply to all audit engagements*. However, in certain circumstances involving audit engagements* where the report includes a restriction on use and distribution, and provided the conditions described in 290.501 to 290.502 are met, the independence* requirements in this section may be modified as provided in paragraphs 290.505 to 290.514. These paragraphs are only applicable to an audit engagement* on special purpose financial statements* (a) that is intended to provide a conclusion in positive or negative form that the financial statements* are prepared in all material respects, in accordance with the applicable financial reporting framework, including, in the case of a fair presentation framework, that the financial statements* give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, and (b) where the audit report includes a restriction on use and distribution. The modifications are not permitted in the case of an audit of financial statements* required by law or regulation.

290.501 The modifications to the requirements of section 290 are permitted if the intended users of the report (a) are knowledgeable as to the purpose and

* See Definitions for parts A, B and C

limitations of the report, and (b) explicitly agree to the application of the modified independence* requirements. Knowledge as to the purpose and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm* to communicate with intended users about independence* matters, including the circumstances that are relevant to the evaluation of the threats to independence* and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level*, and to obtain their agreement to the modified independence* requirements that are to be applied.

290.502 The firm* shall communicate (for example, in an engagement letter) with the intended users regarding the independence* requirements that are to be applied with respect to the provision of the audit engagement*. Where the intended users are a class of users (for example, lenders in a syndicated loan* arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the independence* requirements agreed to by the representative (for example, by the representative making the firm's* engagement letter available to all users).

290.503 If the firm* also issues an audit report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 290.500 to 290.514 do not change the requirement to apply the provisions of paragraphs 290.1 to 290.232 to that audit engagement*.

290.504 The modifications to the requirements of section 290 that are permitted in the circumstances set out above are described in paragraphs 290.505 to 290.514. Compliance in all other respects with the provisions of section 290 is required.

Public interest entities*

290.505 When the conditions set out in paragraphs 290.500 to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.232 that apply to audit engagements* for public interest entities*.

Related Entities

290.506 When the conditions set out in paragraphs 290.500 to 290.502 are met, references to audit client* do not include its related entities. However, when the audit team* knows or has reason to believe that a relationship or circumstance involving a related entity* of the client is relevant to the evaluation of the firm's* independence* of the client, the audit team* shall include that related entity* when identifying and evaluating threats to independence* and applying appropriate safeguards.

Networks* and Network firms*

290.507 When the conditions set out in paragraphs 290.500 to 290.502 are met, reference to the firm* does not include network firms*. However, when the firm* knows or has reason to believe that threats are created by any interests and relationships of a network firm*, they shall be included in the evaluation of threats to independence*.

* See Definitions for parts A, B and C

Financial interests*, Loans* and Guarantees, Close Business Relationships and Family and Personal Relationships

290.508 When the conditions set out in paragraphs 290.500 to 290.502 are met, the relevant provisions set out in paragraphs 290.102 to 290.145 apply only to the members of the engagement team*, their immediate family* members and close family* members.

290.509 In addition, a determination shall be made as to whether threats to independence* are created by interests and relationships, as described in paragraphs 290.102 to 290.145, between the audit client* and the following members of the audit team*:

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

An evaluation shall be made of the significance of any threats that the engagement team* has reason to believe are created by interests and relationships between the audit client* and others within the firm* who can directly influence the outcome of the audit engagement*, including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement* partner* in connection with the performance of the audit engagement* (including those at all successively senior levels above the engagement partner* through to the individual who is the firm's* Senior or Managing Partner* (Chief Executive or equivalent)).

290.510 An evaluation shall also be made of the significance of any threats that the engagement team* has reason to believe are created by financial interests* in the audit client* held by individuals, as described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115.

290.511 Where a threat to independence* is not at an acceptable level*, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level*.

290.512 In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm*, if the firm* has a material financial interest*, whether direct or indirect, in the audit client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, the firm* shall not have such a financial interest*.

Employment with an Audit Client*

290.513 An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 290.134 to 290.138. Where a threat exists that is not at an acceptable level*, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level*. Examples of safeguards that might be appropriate include those set out in paragraph 290.136.

Provision of Non-Assurance Services

290.514 If the firm* conducts an engagement to issue a restricted use and distribution report for an audit client* and provides a non-assurance service to the audit client*, the provisions of paragraphs 290.156 to 290.232 shall be complied with, subject to paragraphs 290.504 to 290.507.

Appendix to Section 290 – Nature of Assurance Engagements*

- 1** *The IESBA and ICAEW Codes include two different sets of requirements to ensure independence* is maintained in assurance engagements*. If the engagement is an audit engagement*, or a review engagement*, the requirements of section 290 apply (or the APB Ethical Standards – see 290.0c). For other assurance engagements*, section 291 applies.*
- 2** *To assist professional accountants in public practice* determine which section to apply, set out below are a number of examples of engagements typically undertaken and an indication of whether they would normally be regarded as audit or review (thus section 290 or APB) or other assurance (thus section 291).*
- 3** *As individual engagements can vary, even within categories, professional accountants in public practice* should consider the examples as indicative rather than definitive and should have regard to the nature of the conclusion to be given. In particular they should have regard to the definitions of ‘review engagement’* and ‘financial statements’* in the IESBA and ICAEW Codes, which are:*

“Review engagement - An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant’s attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.”

“Financial statements - A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.”

- 4** *Taken together, the key elements in determining that an assurance engagement* is a review engagement* are:*
 - *the subject matter: historical financial information, and*

* See Definitions for parts A, B and C

- *the nature of the report: limited procedures but nothing has come to attention to indicate the information is not prepared in accordance with the applicable financial reporting framework.*

Examples of engagements that would normally be considered to be audit or review engagements (section 290 or APB)*

- *Statutory or other audits, or engagements possessing the characteristics of an audit (i.e. involving a 'true and fair' or 'fairly presents' conclusion).*
- *Review in accordance with ISRE 2410 (UK and Ireland): review of interim financial information performed by independent auditor of the entity, or ISRE 2400: engagements to review financial statements*
- *Review in accordance with the ICAEW Assurance Service.*
- *Independent Examination of Charities: again historical financial information and a negative opinion indicating no evidence of non compliance with a specified framework*
- *Public sector year-end audits*
- *Special report on the abbreviated accounts of a small company (the report must be prepared by the auditors, who as such, should apply section 290/APB).*

Examples of engagements that would normally be considered to be other assurance engagements (section 291)

- *Assurance reports on internal controls of service organisations, conducted in accordance with, for example, AAF 01/06 .*
- *Assurance reports on the outsourced provision of information services and information processing services , conducted in accordance with, for example, ITF 01/07.*
- *Any assurance conducted based on AAF 02/07 A framework for assurance reports on third party operations.*
- *Any assurance engagements on prospective financial or non-financial information.*
- *Any other assurance engagements* based on ISAE 3000 including narrative information, greenhouse gas and sustainability reports if conducted outside the scope of annual accounts.*
- *Independent accountant's report on grant claims, conducted in accordance with, for example, AAF 01/10*

* See Definitions for parts A, B and C

Note that for all of the above and any other engagements, if the professional accountant in public practice is also the auditor of the entity, section 290/ APB Ethical standards will already have to be followed. No additional compliance with section 291 is necessary in such circumstances.*

Transitional Provisions

Effective Date

This Code is effective on January 1, 2011; early adoption is permitted. This Code is subject to the following transitional provisions:

Public interest entities*

1. Section 290 of the Code contains additional independence* provisions when the audit or review client* is a public interest entity*. The additional provisions that are applicable because of the new definition of a public interest entity* or the guidance in paragraph 290.26 are effective on January 1, 2012. For partner* rotation requirements, the transitional provisions contained in paragraphs 2 and 3 below apply

Partner* Rotation

2. For a partner* who is subject to the rotation provisions in paragraph 290.151 because the partner* meets the definition of the new term "key audit partner*," and the partner* is neither the engagement partner* nor the individual responsible for the engagement quality control review*, the rotation provisions are effective for the audits or reviews of financial statements* for years beginning on or after December 15, 2011. For example, in the case of an audit client* with a calendar year-end, a key audit partner*, who is neither the engagement partner* nor the individual responsible for the engagement quality control review*, who had served as a key audit partner* for seven or more years (i.e., the audits of 2003 – 2010), would be required to rotate after serving for one more year as a key audit partner* (i.e., after completing the 2011 audit).
3. For an engagement partner* or an individual responsible for the engagement quality control review* who immediately prior to assuming either of these roles served in another key audit partner* role for the client, and who, at the beginning of the first fiscal year beginning on or after December 15, 2010, had served as the engagement partner* or individual responsible for the engagement quality control review* for six or fewer years, the rotation provisions are effective for the audits or reviews of financial statements* for years beginning on or after December 15, 2011. For example, in the case of an audit client* with a calendar year-end, a partner* who had served the client in another key audit partner* role for four years (i.e., the audits of 2002-2005) and subsequently as the engagement partner* for five years (i.e., the audits of 2006-2010) would be required to rotate after serving for one more year as the engagement partner* (i.e., after completing the 2011 audit).

Non-assurance services

4. Paragraphs 290.156-290.219 address the provision of non-assurance services to an audit or review client*. If, at the effective date of the Code, services are being provided to an audit or review client* and the services were permissible under the June 2005 Code (revised July 2006) but are either prohibited or subject to restrictions under the revised Code, the firm* may continue providing

* See Definitions for parts A, B and C

such services only if they were contracted for and commenced prior to January 1, 2011, and are completed before July 1, 2011.

Fees - Relative Size

5. Paragraph 290.222 provides that, in respect of an audit or review client* that is a public interest entity*, when the total fees from that client and its related entities (subject to the considerations in paragraph 290.27) for two consecutive years represent more than 15% of the total fees of the firm* expressing the opinion on the financial statements*, a pre- or post-issuance review (as described in paragraph 290.222) of the second year's audit shall be performed. This requirement is effective for audits or reviews of financial statements* covering years that begin on or after December 15, 2010. For example, in the case of an audit client* with a calendar year end, if the total fees from the client exceeded the 15% threshold for 2011 and 2012, the pre- or post-issuance review would be applied with respect to the audit of the 2012 financial statements*.

Compensation and Evaluation Policies

6. Paragraph 290.229 provides that a key audit partner* shall not be evaluated or compensated based on that partner's* success in selling non-assurance services to the partner's* audit client*. This requirement is effective on January 1, 2012. A key audit partner* may, however, receive compensation after January 1, 2012 based on an evaluation made prior to January 1, 2012 of that partner's* success in selling non-assurance services to the audit client*.

SECTION 291 – INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

Structure of Section

- 291.1 This section addresses independence* requirements for assurance engagements* that are not audit or review engagements*. *As indicated in paragraphs 1.14 to 1.17* independence* requirements for audit and review engagements* are addressed in section 290. If the assurance client* is also an audit or review client*, the requirements in section 290 also apply to the firm*, network firms* and members of the audit or review team*. In certain circumstances involving assurance engagements* where the assurance report includes a restriction on use and distribution and provided certain conditions are met, the independence* requirements in this section may be modified as provided in 291.21 to 291.27.
- 291.2 Assurance engagements* are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance engagements* (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement* and identifies engagements to which International Standards on Assurance engagements* (ISAEs) apply. For a description of the elements and objectives of an assurance engagement*, refer to the Assurance Framework.

* See Definitions for parts A, B and C

291.3 Compliance with the fundamental principle of objectivity requires being independent of assurance clients*. In the case of assurance engagements*, it is in the public interest and, therefore, required by this Code of Ethics, that members of assurance teams* and firms be independent of assurance clients* and that any threats that the firm* has reason to believe are created by a network firm's* interests and relationships be evaluated. In addition, when the assurance team* knows or has reason to believe that a relationship or circumstance involving a related entity* of the assurance client* is relevant to the evaluation of the firm's* independence* from the client, the assurance team* shall include that related entity* when identifying and evaluating threats to independence* and applying appropriate safeguards.

A Conceptual Framework Approach to independence*

291.4 The objective of this section is to assist firms and members of assurance teams* in applying the conceptual framework approach described below to achieving and maintaining independence*.

291.5 Independence* comprises:

(a) Independence* of Mind

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

(b) Independence* in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's*, or a member of the assurance team's*, integrity, objectivity or professional scepticism has been compromised.

291.6 The conceptual framework approach shall be applied by professional accountants* to:

- (a) Identify threats to independence*;
- (b) Evaluate the significance of the threats identified; and
- (c) Apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level*.

When the professional accountant* determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level*, the professional accountant* shall eliminate the circumstance or relationship creating the threats or decline or terminate the assurance engagement*.

* See Definitions for parts A, B and C

A professional accountant* shall use professional judgment in applying this conceptual framework.

- 291.7** Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence*. It is impossible to define every situation that creates threats to independence* and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of assurance teams* to identify, evaluate, and address threats to independence*. The conceptual framework approach assists professional accountants* in public practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence* and can deter a professional accountant* from concluding that a situation is permitted if it is not specifically prohibited.
- 291.8** Paragraphs 291.100 and onwards describe how the conceptual framework approach to independence* is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence*.
- 291.9** In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the assurance team*, a firm* shall identify and evaluate any threats to independence*. If the threats are not at an acceptable level*, and the decision is whether to accept an engagement or include a particular individual on the assurance team*, the firm* shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level*. If the decision is whether to continue an engagement, the firm* shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level* or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat comes to the attention of the firm* during the engagement, the firm* shall evaluate the significance of the threat in accordance with the conceptual framework approach.
- 291.10** Throughout this section, reference is made to the significance of threats to independence*. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.
- 291.11** This section does not, in most cases, prescribe the specific responsibility of individuals within the firm* for actions related to independence* because responsibility may differ depending on the size, structure and organisation of a firm*. The firm* is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence* is maintained when required by relevant ethical standards.

Assurance engagements*

- 291.12** As further explained in the Assurance Framework, in an assurance engagement* the professional accountant in public practice* expresses a conclusion designed to enhance the degree of confidence of the intended

* See Definitions for parts A, B and C

users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria.

- 291.13** The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO³ or CoCo⁴ (criteria), to internal control, a process (subject matter).
- 291.14** Assurance engagements* may be assertion-based or direct reporting. In either case, they involve three separate parties: a professional accountant in public practice*, a responsible party and intended users.
- 291.15** In an assertion-based assurance engagement*, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 291.16** In a direct reporting assurance engagement*, the professional accountant in public practice* either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

Assertion-based Assurance engagements*

- 291.17** In an assertion-based assurance engagement*, the members of the assurance team* and the firm* shall be independent of the assurance client* (the party responsible for the subject matter information, and which may be responsible for the subject matter). Such independence* requirements prohibit certain relationships between members of the assurance team* and (a) directors* or officers*, and (b) individuals at the client in a position to exert significant influence over the subject matter information. Also, a determination shall be made as to whether threats to independence* are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. An evaluation shall be made of the significance of any threats that the firm* has reason to believe are created by network firm*⁵ interests and relationships.
- 291.18** In the majority of assertion-based assurance engagements*, the responsible party is responsible for both the subject matter information and the subject

³ “Internal Control – Integrated Framework” The Committee of Sponsoring Organisations of the Treadway Commission.

⁴ “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.

⁵ See paragraphs 290.13 to 290.24 for guidance on what constitutes a network firm*.

matter. However, in some engagements, the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice* is engaged to perform an assurance engagement* regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

291.19 In assertion-based assurance engagements* where the responsible party is responsible for the subject matter information but not the subject matter, the members of the assurance team* and the firm* shall be independent of the party responsible for the subject matter information (the assurance client*). In addition, an evaluation shall be made of any threats the firm* has reason to believe are created by interests and relationships between a member of the assurance team*, the firm*, a network firm* and the party responsible for the subject matter.

Direct Reporting Assurance engagements*

291.20 In a direct reporting assurance engagement*, the members of the assurance team* and the firm* shall be independent of the assurance client* (the party responsible for the subject matter). An evaluation shall also be made of any threats the firm* has reason to believe are created by network firm* interests and relationships.

Reports that Include a Restriction on Use and Distribution

291.21 In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the independence* requirements in this section may be modified. The modifications to the requirements of section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence* requirements. Knowledge as to the purpose, subject matter information, and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm* to communicate with intended users about independence* matters, including the circumstances that are relevant to the evaluation of the threats to independence* and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level*, and to obtain their agreement to the modified independence* requirements that are to be applied.

291.22 The firm* shall communicate (for example, in an engagement letter) with the intended users regarding the independence* requirements that are to be applied with respect to the provision of the assurance engagement*. Where the intended users are a class of users (for example, lenders in a syndicated loan* arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made

* See Definitions for parts A, B and C

aware of the independence* requirements agreed to by the representative (for example, by the representative making the firm's* engagement letter available to all users).

- 291.23** If the firm* also issues an assurance report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 291.25 to 291.27 do not change the requirement to apply the provisions of paragraphs 291.1 to 291.159 to that assurance engagement*. If the firm* also issues an audit report, whether or not it includes a restriction on use and distribution, for the same client, the provisions of section 290 shall apply to that audit engagement*.
- 291.24** The modifications to the requirements of section 291 that are permitted in the circumstances set out above are described in paragraphs 291.25 to 291.27. Compliance in all other respects with the provisions of section 291 is required.
- 291.25** When the conditions set out in paragraphs 291.21 and 291.22 are met, the relevant provisions set out in paragraphs 291.104 to 291.134 apply to all members of the engagement team*, and their immediate and close family* members. In addition, a determination shall be made as to whether threats to independence* are created by interests and relationships between the assurance client* and the following other members of the assurance team*:
- (a) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (b) Those who provide quality control for the engagement, including those who perform the engagement quality control review*.

An evaluation shall also be made, by reference to the provisions set out in paragraphs 291.104 to 291.134, of any threats that the engagement team* has reason to believe are created by interests and relationships between the assurance client* and others within the firm* who can directly influence the outcome of the assurance engagement*, including those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement* partner* in connection with the performance of the assurance engagement*.

- 291.26** Even though the conditions set out in paragraphs 291.21 to 291.22 are met, if the firm* had a material financial interest*, whether direct or indirect, in the assurance client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, the firm* shall not have such a financial interest*. In addition, the firm* shall comply with the other applicable provisions of this section described in paragraphs 291.113 to 291.159.
- 291.27** An evaluation shall also be made of any threats that the firm* has reason to believe are created by network firm* interests and relationships.

Multiple Responsible Parties

291.28 In some assurance engagements*, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm* may take into account whether an interest or relationship between the firm*, or a member of the assurance team*, and a particular responsible party would create a threat to independence* that is not trivial and inconsequential in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the firm* determines that the threat to independence* created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it may not be necessary to apply all of the provisions of this section to that responsible party.

Documentation

291.29 Documentation provides evidence of the professional accountant's* judgments in forming conclusions regarding compliance with independence* requirements. The absence of documentation is not a determinant of whether a firm* considered a particular matter nor whether it is independent.

The professional accountant* shall document conclusions regarding compliance with independence* requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

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

Engagement Period

291.30 Independence* from the assurance client* is required both during the engagement period and the period covered by the subject matter information. The engagement period starts when the assurance team* begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by

* See Definitions for parts A, B and C

either party that the professional relationship has terminated or the issuance of the final assurance report.

291.31 When an entity becomes an assurance client* during or after the period covered by the subject matter information on which the firm* will express a conclusion, the firm* shall determine whether any threats to independence* are created by:

- (a) Financial or business relationships with the assurance client* during or after the period covered by the subject matter information but before accepting the assurance engagement*; or
- (b) Previous services provided to the assurance client*.

291.32 If a non-assurance service was provided to the assurance client* during or after the period covered by the subject matter information but before the assurance team* begins to perform assurance services and the service would not be permitted during the period of the assurance engagement*, the firm* shall evaluate any threat to independence* created by the service. If any threat is not at an acceptable level*, the assurance engagement* shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

However, if the non-assurance service has not been completed and it is not practical to complete or terminate the service before the commencement of professional services* in connection with the assurance engagement*, the firm* shall only accept the assurance engagement* if it is satisfied:

- (a) The non-assurance service will be completed within a short period of time; or
- (b) The client has arrangements in place to transition the service to another provider within a short period of time.

During the service period, safeguards shall be applied when necessary. In addition, the matter shall be discussed with those charged with governance*.

Other Considerations

291.33 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence* provided the firm* has appropriate quality control

* See Definitions for parts A, B and C

policies and procedures in place equivalent to those required by International Standards on Quality Control to maintain independence* and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level*. The firm* shall determine whether to discuss the matter with those charged with governance*.

Paragraphs 291.34 to 291.99 are intentionally left blank.

Application of the Conceptual Framework Approach to independence*

291.100 Paragraphs 291.104 to 291.159 describe specific circumstances and relationships that create or may create threats to independence*. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level* and identify certain situations where no safeguards could reduce the threats to an acceptable level*. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence*. The firm* and the members of the assurance team* shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.11 to 200.14 can be applied when necessary to eliminate the threats to independence* or reduce them to an acceptable level*.

291.101 The paragraphs demonstrate how the conceptual framework approach applies to assurance engagements* and are to be read in conjunction with paragraph 291.28 which explains that, in the majority of assurance engagements*, there is one responsible party and that responsible party is the assurance client*. However, in some assurance engagements* there are two or more responsible parties. In such circumstances, an evaluation shall be made of any threats the firm* has reason to believe are created by interests and relationships between a member of the assurance team*, the firm*, a network firm* and the party responsible for the subject matter. For assurance reports that include a restriction on use and distribution, the paragraphs are to be read in the context of paragraphs 291.21 to 291.27.

291.102 Interpretation 2005-01 provides further guidance on applying the independence* requirements contained in this section to assurance engagements*.

291.103 Paragraphs 291.104 to 291.120 contain references to the materiality of a financial interest*, loan*, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family* members may be taken into account.

Financial interests*

291.104 Holding a financial interest* in an assurance client* may create a self-interest threat. The existence and significance of any threat created depends on:

- (a) the role of the person holding the financial interest*,

* See Definitions for parts A, B and C

- (b) whether the financial interest* is direct or indirect, and
- (c) the materiality of the financial interest*.

291.105 Financial interests* may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such financial interests* are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest* to be a direct financial interest*. Conversely, when the beneficial owner of the financial interest* has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest* to be an indirect financial interest*.

291.106 If a member of the assurance team*, a member of that individual's immediate family* or a firm* has a direct financial interest* or a material indirect financial interest* in the assurance client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, none of the following shall have a direct financial interest* or a material indirect financial interest* in the client: a member of the assurance team*; a member of that individual's immediate family* member; or the firm*.

291.107 When a member of the assurance team* has a close family* member who the assurance team* member knows has a direct financial interest* or a material indirect financial interest* in the assurance client*, a self-interest threat is created. The significance of the threat will depend on factors such as

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

291.108 If a member of the assurance team*, a member of that individual's immediate family*, or a firm* has a direct or material indirect financial interest* in an entity that has a controlling interest in the assurance client*, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, none of

* See Definitions for parts A, B and C

the following shall have such a financial interest*: a member of the assurance team*; a member of that individual's immediate family*; and the firm*.

291.109 The holding by a firm* or a member of the assurance team*, or a member of that individual's immediate family*, of a direct financial interest* or a material indirect financial interest* in the assurance client* as a trustee creates a self-interest threat. Such an interest shall not be held unless:

- (a) Neither the trustee, nor an immediate family* member of the trustee, nor the firm* are beneficiaries of the trust;
- (b) The interest in the assurance client* held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client*; and
- (d) The trustee, an immediate family* member of the trustee, or the firm* cannot significantly influence any investment decision involving a financial interest* in the assurance client*.

291.110 Members of the assurance team* shall determine whether a self-interest threat is created by any known financial interests* in the assurance client* held by other individuals including:

- Partners* and professional employees of the firm*, other than those referred to above, or their immediate family* members; and
- Individuals with a close personal relationship with a member of the assurance team*.

Whether these interests create a self-interest threat will depend on factors such as:

- The firm's* organisational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the assurance team*.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

291.111 If a firm*, a member of the assurance team*, or an immediate family* member of the individual, receives a direct financial interest* or a material indirect financial interest* in an assurance client*, for example, by way of an inheritance, gift or as a result of a merger, and such interest would not be permitted to be held under this section, then:

- (a) If the interest is received by the firm*, the financial interest* shall be disposed of immediately, or a sufficient amount of an indirect financial interest* shall be disposed of so that the remaining interest is no longer material, or
- (b) If the interest is received by a member of the assurance team*, or a member of that individual's immediate family*, the individual who received the financial interest* shall immediately dispose of the financial interest*, or dispose of a sufficient amount of an indirect financial interest* so that the remaining interest is no longer material.

291.112 When an inadvertent violation of this section as it relates to a financial interest* in an assurance client* occurs, it is deemed not to compromise independence* if:

- (a) The firm* has established policies and procedures that require prompt notification to the firm* of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest* in the assurance client*;
- (b) The actions taken in paragraph 291.111(a) – (b) are taken as applicable; and
- (c) The firm* applies other safeguards when necessary to reduce any remaining threat to an acceptable level*. Examples of such safeguards include:
 - (i) Having a professional accountant* review the work of the member of the assurance team*; or
 - (ii) Excluding the individual from any significant decision-making concerning the assurance engagement*.

The firm* shall determine whether to discuss the matter with those charged with governance*.

Loans* and Guarantees

291.113 A loan*, or a guarantee of a loan*, to a member of the assurance team*, or a member of that individual's immediate family*, or the firm* from an assurance client* that is a bank or a similar institution, may create a threat to independence*. If the loan* or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, neither a member of the assurance team*, a

* See Definitions for parts A, B and C

member of that individual's immediate family*, nor a firm* shall accept such a loan* or guarantee.

- 291.114** If a loan* to a firm* from an assurance client* that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the assurance client* or firm* receiving the loan*, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level*. An example of such a safeguard is having the work reviewed by a professional accountant* from a network firm* that is neither involved with the assurance engagement* nor received the loan*.
- 291.115** A loan*, or a guarantee of a loan*, from an assurance client* that is a bank or a similar institution to a member of the assurance team*, or a member of that individual's immediate family*, does not create a threat to independence* if the loan* or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans* include home mortgages, bank overdrafts, car loans* and credit card balances.
- 291.116** If the firm* or a member of the assurance team*, or a member of that individual's immediate family*, accepts a loan* from, or has a borrowing guaranteed by, an assurance client* that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*, unless the loan* or guarantee is immaterial to both the firm*, or the member of the assurance team* and the immediate family* member, and the client.
- 291.117** Similarly, if the firm*, or a member of the assurance team*, or a member of that individual's immediate family*, makes or guarantees a loan* to an assurance client*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level*, unless the loan* or guarantee is immaterial to both the firm*, or the member of the assurance team* and the immediate family* member, and the client.
- 291.118** If a firm* or a member of the assurance team*, or a member of that individual's immediate family*, has deposits or a brokerage account with an assurance client* that is a bank, broker, or similar institution, a threat to independence* is not created if the deposit or account is held under normal commercial terms.

Business Relationships

- 291.119** A close business relationship between a firm*, or a member of the assurance team*, or a member of that individual's immediate family*, and the assurance client* or its management arises from a commercial relationship or common financial interest* and may create self-interest or intimidation threats. Examples of such relationships include:
- Having a financial interest* in a joint venture with either the client or a controlling owner, director* or officer* or other individual who performs senior managerial activities for that client.

- Arrangements to combine one or more services or products of the firm* with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm* distributes or markets the client's products or services, or the client distributes or markets the firm's* products or services.

Unless any financial interest* is immaterial and the business relationship is insignificant to the firm* and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Therefore, unless the financial interest* is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or shall be reduced to an insignificant level or terminated.

In the case of a member of the assurance team*, unless any such financial interest* is immaterial and the relationship is insignificant to that member, the individual shall be removed from the assurance team*.

If the business relationship is between an immediate family* member of a member of the assurance team* and the assurance client* or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*.

291.120 The purchase of goods and services from an assurance client* by the firm*, or a member of the assurance team*, or a member of that individual's immediate family*, does not generally create a threat to independence* if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

Family and Personal Relationships

291.121 Family and personal relationships between a member of the assurance team* and a director* or officer* or certain employees (depending on their role) of the assurance client*, may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the assurance team*, the role of the family member or other individual within the client, and the closeness of the relationship.

291.122 When an immediate family* member of a member of the assurance team* is:

- (a) A director* or officer* of the assurance client*, or

- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement*,

or was in such a position during any period covered by the engagement or the subject matter information, the threats to independence* can only be reduced to an acceptable level* by removing the individual from the assurance team*. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level*. Accordingly, no individual who has such a relationship shall be a member of the assurance team*.

291.123 Threats to independence* are created when an immediate family* member of a member of the assurance team* is an employee in a position to exert significant influence over the subject matter of the engagement. The significance of the threats will depend on factors such as:

- The position held by the immediate family* member; and
- The role of the professional on the assurance team*.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

291.124 Threats to independence* are created when a close family* member of a member of the assurance team* is:

- A director* or officer* of the assurance client*; or
- An employee in a position to exert significant influence over the subject matter information of the assurance engagement*.

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

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Removing the individual from the assurance team*; or

- Structuring the responsibilities of the assurance team* so that the professional does not deal with matters that are within the responsibility of the close family* member.

291.125 Threats to independence* are created when a member of the assurance team* has a close relationship with a person who is not an immediate or close family* member, but who is a director* or officer* or an employee in a position to exert significant influence over the subject matter information of the assurance engagement*. A member of the assurance team* who has such a relationship shall consult in accordance with firm* policies and procedures. The significance of the threats will depend on factors such as:

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

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

291.126 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner* or employee of the firm* who is not a member of the assurance team* and (b) a director* or officer* of the assurance client* or an employee in a position to exert significant influence over the subject matter information of the assurance engagement*. The existence and significance of any threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

291.127 When an inadvertent violation of this section as it relates to family and personal relationships occurs, it is deemed not to compromise independence* if:

- (a) The firm* has established policies and procedures that require prompt notification to the firm* of any breaches resulting from changes in the employment status of their immediate or close family* members or other personal relationships that create threats to independence*;
- (b) The inadvertent violation relates to an immediate family* member of a member of the assurance team* becoming a director* or officer* of the assurance client* or being in a position to exert significant influence over the subject matter information of the assurance engagement*, and the relevant professional is removed from the assurance team*; and
- (c) The firm* applies other safeguards when necessary to reduce any remaining threat to an acceptable level*. Examples of such safeguards include:
 - Having a professional accountant* review the work of the member of the assurance team*;
 - Excluding the relevant professional from any significant decision-making concerning the engagement.

The firm* shall determine whether to discuss the matter with those charged with governance*.

Employment with Assurance Clients*

291.128 Familiarity or intimidation threats may be created if a director* or officer* of the assurance client*, or an employee who is in a position to exert significant influence over the subject matter information of the assurance engagement*, has been a member of the assurance team* or partner* of the firm*.

291.129 If a former member of the assurance team* or partner* of the firm* has joined the assurance client* in such a position, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

- The position the individual has taken at the client;
- Any involvement the individual will have with the assurance team*;
- The length of time since the individual was a member of the assurance team* or partner* of the firm*; and

* See Definitions for parts A, B and C

- The former position of the individual within the assurance team* or firm*, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance*.

In all cases the individual shall not continue to participate in the firm's* business or professional activities.

The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm*, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm*;
- Modifying the plan for the assurance engagement*;
- Assigning individuals to the assurance team* who have sufficient experience in relation to the individual who has joined the client; or
- Having a professional accountant* review the work of the former member of the assurance team*.

291.130 If a former partner* of the firm* has previously joined an entity in such a position and the entity subsequently becomes an assurance client* of the firm*, the significance of any threats to independence* shall be evaluated and safeguards applied when necessary, to eliminate the threat or reduce it to an acceptable level*.

291.131 A self-interest threat is created when a member of the assurance team* participates in the assurance engagement* while knowing that the member of the assurance team* will, or may, join the client some time in the future. Firm* policies and procedures shall require members of an assurance team* to notify the firm* when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

- Removing the individual from the assurance team*; or
- A review of any significant judgments made by that individual while on the team.

Recent Service with an Assurance client*

291.132 Self-interest, self-review or familiarity threats may be created if a member of the assurance team* has recently served as a director*, officer*, or employee of the assurance client*. This would be the case when, for example, a member of

* See Definitions for parts A, B and C

the assurance team* has to evaluate elements of the subject matter information the member of the assurance team* had prepared while with the client.

- 291.133** If, during the period covered by the assurance report, a member of the assurance team* had served as director* or officer* of the assurance client*, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement*, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level*. Consequently, such individuals shall not be assigned to the assurance team*.
- 291.134** Self-interest, self-review or familiarity threats may be created if, before the period covered by the assurance report, a member of the assurance team* had served as director* or officer* of the assurance client*, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement*. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement*. The existence and significance of any threats will depend on factors such as:
- The position the individual held with the client;
 - The length of time since the individual left the client; and
 - The role of the professional on the assurance team*.

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level*. An example of such a safeguard is conducting a review of the work performed by the individual as part of the assurance team*.

Serving as a Director* or Officer* of an Assurance client*

- 291.135** If a partner* or employee of the firm* serves a director* or officer* of an assurance client*, the self-review and self-interest threats would be so significant that no safeguards could reduce the threats to an acceptable level*. Accordingly, no partner* or employee shall serve as a director* or officer* of an assurance client*.
- 291.136** The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.
- 291.137** If a partner* or employee of the firm* serves as Company Secretary for an assurance client*, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level*. Despite paragraph 291.135, when this practice is specifically permitted under local law, professional rules or practice, and provided

* See Definitions for parts A, B and C

management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*.

291.138 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence*, as long as client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance clients*

291.139 Familiarity and self-interest threats are created by using the same senior personnel on an assurance engagement* over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the assurance team*;
- The role of the individual on the assurance team*;
- The structure of the firm*;
- The nature of the assurance engagement*;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the subject matter information has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

- Rotating the senior personnel off the assurance team*;
- Having a professional accountant* who was not a member of the assurance team* review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

Provision of Non-assurance Services to Assurance clients*

291.140 Firms have traditionally provided to their assurance clients* a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence* of the firm* or members of the assurance team*. The threats created are most often self-review, self-interest and advocacy threats.

* See Definitions for parts A, B and C

291.141 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

291.142 Before the firm* accepts an engagement to provide a non-assurance service to an assurance client*, a determination shall be made as to whether providing such a service would create a threat to independence*. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the assurance team* has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level* by the application of safeguards the non-assurance service shall not be provided.

Management Responsibilities

291.143 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

291.144 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;
- Deciding which recommendations of the firm* or other third parties to implement; and
- Taking responsibility for designing, implementing and maintaining internal control.

291.145 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an assurance client* of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

291.146 Assuming a management responsibility for an assurance client* may create threats to independence*. If a firm* were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level*.

* See Definitions for parts A, B and C

Accordingly, in providing assurance services to an assurance client*, a firm* shall not assume a management responsibility as part of the assurance service. If the firm* assumes a management responsibility as part of any other services provided to the assurance client*, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement* provided by the firm*.

291.147 To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement*, the firm* shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm* inadvertently making any significant judgments or decisions on behalf of management. This risk is further reduced when the firm* gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

Other Considerations

291.148 Threats to independence* may be created when a firm* provides a non-assurance service related to the subject matter information of an assurance engagement*. In such cases, an evaluation of the significance of the firm's* involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level* can be reduced to an acceptable level* by the application of safeguards.

291.149 A self-review threat may be created if the firm* is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement*. For example, a self-review threat would be created if the firm* developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm* shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level*.

291.150 When a firm* performs a valuation that forms part of the subject matter information of an assurance engagement*, the firm* shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level*.

Fees

Fees - Relative Size

291.151 When the total fees from an assurance client* represent a large proportion of the total fees of the firm* expressing the conclusion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm*;
- Whether the firm* is well established or new; and

* See Definitions for parts A, B and C

- The significance of the client qualitatively and/or quantitatively to the firm*.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards include:

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

291.152 A self-interest or intimidation threat is also created when the fees generated from an assurance client* represent a large proportion of the revenue from an individual partner's* clients. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. An example of such a safeguard is having an additional professional accountant* who was not a member of the assurance team* review the work or otherwise advise as necessary.

Fees - Overdue

291.153 A self-interest threat may be created if fees due from an assurance client* remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally the firm* is expected to require payment of such fees before any such report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. An example of such a safeguard is having another professional accountant* who did not take part in the assurance engagement* provide advice or review the work performed. The firm* shall determine whether the overdue fees might be regarded as being equivalent to a loan* to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm* to be re-appointed or continue the assurance engagement*.

Contingent fees*

291.154 Contingent fees* are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm*. For the purposes of this section, fees are not regarded as being contingent if established by a court or other public authority.

291.155 A contingent fee* charged directly or indirectly, for example through an intermediary, by a firm* in respect of an assurance engagement* creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level*. Accordingly, a firm* shall not enter into any such fee arrangement.

291.156 A contingent fee* charged directly or indirectly, for example through an intermediary, by a firm* in respect of a non-assurance service provided to an assurance client* may also create a self-interest threat. If the outcome of the

* See Definitions for parts A, B and C

non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement*, no safeguards could reduce the threat to an acceptable level*. Accordingly, such arrangements shall not be accepted.

291.157 For other contingent fee* arrangements charged by a firm* for a non-assurance service to an assurance client*, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee* will be determined;
- The nature of the service; and
- The effect of the event or transaction on the subject matter information.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

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

Gifts and Hospitality

291.158 Accepting gifts or hospitality from an assurance client* may create self-interest and familiarity threats. If a firm* or a member of the assurance team* accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level*. Consequently, a firm* or a member of the assurance team* shall not accept such gifts or hospitality.

Actual or Threatened Litigation

291.159 When litigation takes place, or appears likely, between the firm* or a member of the assurance team* and the assurance client*, self-interest and intimidation threats are created. The relationship between client management and the members of the assurance team* must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the firm* and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

- The materiality of the litigation; and

* See Definitions for parts A, B and C

- Whether the litigation relates to a prior assurance engagement*.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level*. Examples of such safeguards include:

- If the litigation involves a member of the assurance team*, removing that individual from the assurance team*; or
- Having a professional review the work performed.

If such safeguards do not reduce the threats to an acceptable level*, the only appropriate action is to withdraw from, or decline, the assurance engagement*.

Interpretation 2005-01 (Revised July 2009 to conform to changes resulting from the IESBA's project to improve the clarity of the Code)

Application of section 291 to Assurance engagements* that are not Financial statement* Audit engagements*

This interpretation provides guidance on the application of the independence* requirements contained in section 291 to assurance engagements* that are not financial statement* audit engagements*.

This interpretation focuses on the application issues that are particular to assurance engagements* that are not financial statement* audit engagements*. There are other matters noted in section 291 that are relevant in the consideration of independence* requirements for all assurance engagements*. For example, paragraph 291.3 states that an evaluation shall be made of any threats the firm* has reason to believe are created by a network firm's* interests and relationships. It also states that when the assurance team* has reason to believe that a related entity* of such an assurance client* is relevant to the evaluation of the firm's* independence* of the client, the assurance team* shall include the related entity* when evaluating threats to independence* and when necessary applying safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance engagements* issued by the International Auditing and Assurance Standards Board, in an assurance engagement*, the professional accountant in public practice* expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Assertion-Based Assurance engagements*

In an assertion-based assurance engagement*, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In an assertion-based assurance engagement* independence* is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

* See Definitions for parts A, B and C

In those assertion-based assurance engagements* where the responsible party is responsible for the subject matter information but not the subject matter, independence* is required from the responsible party. In addition, an evaluation shall be made of any threats the firm* has reason to believe are created by interests and relationships between a member of the assurance team*, the firm*, a network firm* and the party responsible for the subject matter.

Direct Reporting Assurance engagements*

In a direct reporting assurance engagement*, the professional accountant in public practice* either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

In a direct reporting assurance engagement* independence* is required from the responsible party, which is responsible for the subject matter.

Multiple Responsible Parties

In both assertion-based assurance engagements* and direct reporting assurance engagements* there may be several responsible parties. For example, a public accountant in public practice may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based assurance engagement* where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement*, where there is no assertion and there may or may not be a written representation from the newspapers.

In such engagements, when determining whether it is necessary to apply the provisions in section 291 to each responsible party, the firm* may take into account whether an interest or relationship between the firm*, or a member of the assurance team*, and a particular responsible party would create a threat to independence* that is not trivial and inconsequential in the context of the subject matter information. This will take into account:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest that is associated with the engagement.

If the firm* determines that the threat to independence* created by any such relationships with a particular responsible party would be trivial and inconsequential it may not be necessary to apply all of the provisions of this section to that responsible party.

Example

The following example has been developed to demonstrate the application of section 291. It is assumed that the client is not also a financial statement* audit client* of the firm*, or a network firm*.

* See Definitions for parts A, B and C

A firm* is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the professional accountant in public practice* determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands of barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
Total	104,301

The engagement could be structured in differing ways:

Assertion-Based Engagements

- A1 Each company measures its reserves and provides an assertion to the firm* and to intended users.
- A2 An entity other than the companies measures the reserves and provides an assertion to the firm* and to intended users.

Direct Reporting Engagements

- D1 Each company measures the reserves and provides the firm* with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

* See Definitions for parts A, B and C

D2 The firm* directly measures the reserves of some of the companies.

Application of Approach

A1 Each company measures its reserves and provides an assertion to the firm* and to intended users.

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence* provisions to all of the companies, the firm* may take into account whether an interest or relationship with a particular company would create a threat to independence* that is not at an acceptable level*. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement (paragraph 291.28).

For example Company 8 accounts for 0.17% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence* requirements apply, the assurance team* and the firm* are required to be independent of those responsible parties that would be considered to be the assurance client* (paragraph 291.28).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm* and to intended users.

The firm* shall be independent of the entity that measures the reserves and provides an assertion to the firm* and to intended users (paragraph 291.19). That entity is not responsible for the subject matter and so an evaluation shall be made of any threats the firm* has reason to believe are created by interests/relationships with the party responsible for the subject matter (paragraph 291.19). There are several parties responsible for the subject matter in this engagement (Companies 1-10). As discussed in example A1 above, the firm* may take into account whether an interest or relationship with a particular company would create a threat to independence* that is not at an acceptable level*.

D1 Each company provides the firm* with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the independence* provisions to all of the companies, the firm* may take into account whether an interest or relationship with a particular company would create a threat to independence* that is not at an acceptable level*. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and

- The degree of public interest associated with the engagement. (Paragraph 291.28).

For example, Company 8 accounts for 0.17% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence* requirements apply, the assurance team* and the firm* shall be independent of those responsible parties that would be considered to be the assurance client* (paragraph 291.28).

D2 The firm* directly measures the reserves of some of the companies.

The application is the same as in example D1.

* See Definitions for parts A, B and C

PART C—PROFESSIONAL ACCOUNTANTS IN BUSINESS

300	Introduction
310	Potential Conflicts
320	Preparation and Reporting of Information
330	Acting with Sufficient Expertise
340	Financial Interests
350	Inducements

SECTION 300 - INTRODUCTION

300.1 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in business*. This Part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in business* that create or may create threats to compliance with the fundamental principles. Therefore, the professional accountant in business* is encouraged to be alert for such circumstances and relationships.

Professional accountants in business shall also read Part A which sets out the fundamental principles and conceptual framework that professional accountants* are required to adhere to. It may also be helpful for professional accountants in business* to refer to other parts of this Code in relevant circumstances: for example, sections 221, 'Corporate finance advice', and 241, 'Agencies and referrals.'*

300.2 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 in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organisations 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.

Professional accountants in business are engaged in an executive or non-executive capacity in such areas as commerce, industry, the public and service sectors (including public sector bodies), education, the not for profit sector, regulatory bodies or professional bodies.*

300.3 A professional accountant in business* may be a salaried employee, a partner*, director* (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organisation. The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant* in business.

* See Definitions for parts A, B and C

Professional accountants are reminded that this Code applies to all their professional and business activities, with and without reward.*

- 300.4** A professional accountant in business* has a responsibility to further the legitimate aims of the accountant's employing organisation. This Code does not seek to hinder a professional accountant in business* from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.
- 300.5** A professional accountant in business* may hold a senior position within an organisation. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business* is expected, therefore, to encourage an ethics-based culture in an employing organisation that emphasises the importance that senior management places on ethical behaviour.
- 300.6** A professional accountant in business* shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Fundamental Principles

- 300.6a** *A professional accountant* shall comply with the following fundamental principles:*
- (a) ***Integrity*** – *to be straightforward and honest in all professional and business relationships.*
 - (b) ***Objectivity*** – *to not allow bias, conflict of interest or undue influence of others to override professional or business judgments*
 - (c) ***Professional Competence and Due Care*** – *to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services* based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.*
 - (d) ***Confidentiality*** – *to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, 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, nor use the information for the personal advantage of the professional accountant* or third parties.*
 - (e) ***Professional Behaviour*** – *to comply with relevant laws and regulations and avoid any action that discredits the profession.*
- 300.7** Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:
- (a) Self-interest;

* See Definitions for parts A, B and C

- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and;
- (e) Intimidation.

These threats are discussed further in Part A of this Code.

300.8 Examples of circumstances that may create self-interest threats for a professional accountant in business* include:

- Holding a financial interest* in, or receiving a loan* or guarantee from the employing organisation.
- Participating in incentive compensation arrangements offered by the employing organisation.
- Inappropriate personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organisation.

300.9 An example of a circumstance that creates a self-review threat for a professional accountant in business* is determining the appropriate accounting treatment for a business combination after performing the feasibility study that supported the acquisition decision.

300.10 When furthering the legitimate goals and objectives of their employing organisations, professional accountants in business* may promote the organisation's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

300.11 Examples of circumstances that may create familiarity threats for a professional accountant in business* include:

- Being responsible for the employing organisation's financial reporting when an immediate or close family* member employed by the entity makes decisions that affect the entity's financial reporting.
- Long association with business contacts influencing business decisions.
- Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.

300.12 Examples of circumstances that may create intimidation threats for a professional accountant in business* include:

- Threat of dismissal or replacement of the professional accountant in business* or a close or immediate family* member over a disagreement

* See Definitions for parts A, B and C

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 or the application of an accounting principle.

300.13 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.

Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.14 of Part A of this Code.

300.14 Safeguards in the work environment include:

- The employing organisation's systems of corporate oversight or other oversight structures.
- The employing organisation's ethics and conduct programs.
- Recruitment procedures in the employing organisation emphasising the importance of employing high calibre competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behaviour 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 organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organisation any ethical issues that concern them without fear of retribution.
- Consultation with another appropriate professional accountant*.

300.15 In circumstances where a professional accountant in business* believes that unethical behaviour or actions by others will continue to occur within the employing organisation, the professional accountant in business* may consider obtaining legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to

* See Definitions for parts A, B and C

an acceptable level*, a professional accountant in business* may conclude that it is appropriate to *disassociate from the task and/or* resign from the employing organisation.

300.16 *To assist professional accountants* to determine an appropriate course of action when faced with a situation which could threaten their compliance with the fundamental principles the following sections give examples of specific areas of activity which could give rise to ethical dilemmas and the action which could be taken in response. This is not a comprehensive list of examples but aims to cover the key areas most likely to be encountered by professional accountants*. Illustrative case studies of how the guidance might be applied in example situations are available at www.icaew.com/ethics.*

300.17 *Professional accountants* who are in doubt as to their ethical position may seek advice from the ICAEW's Technical Advisory Services by e-mail: ethics@icaew.com or phone +44 (0)1908 248 250. Further guidance on sources of advice is available in section 1.*

SECTION 310 – POTENTIAL CONFLICTS

310.1 A professional accountant in business* shall comply with the fundamental principles. There may be times, however, when a professional accountant's* responsibilities to an employing organisation and professional obligations to comply with the fundamental principles are in conflict. A professional accountant in business* is expected to support the legitimate and ethical objectives established by the employer and the rules and procedures drawn up in support of those objectives. Nevertheless, where a relationship or circumstance creates a threat to compliance with the fundamental principles, a professional accountant in business* shall apply the conceptual framework approach described in section 100 to determine a response to the threat.

310.2 As a consequence of responsibilities to an employing organisation, a professional accountant in business* may be under pressure to act or behave in ways that could create threats to compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director* or another individual within the employing organisation. A professional accountant in business* may face pressure to:

- Act contrary to law or regulation.
- Act contrary to technical or professional standards.
- Facilitate unethical or illegal earnings management strategies.
- Lie to others, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
 - The auditors of the employing organisation; or
 - Regulators.

* See Definitions for parts A, B and C

- 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.

310.3 The significance of any threats arising from such pressures, such as intimidation threats, shall be evaluated and safeguards applied when necessary to eliminate them or reduce them to an acceptable level*. Examples of such safeguards include:

- Obtaining advice, where appropriate, from within the employing organisation, an independent professional advisor or *ICAEW (see section 1 of this Code)*.
- Using a formal dispute resolution process within the employing organisation.
- Seeking legal advice.

Informal discussions with fellow professional accountants in business or in practice may assist in clarifying the steps needed to be taken.*

SECTION 320 - PREPARATION AND REPORTING OF INFORMATION

320.1 Professional accountants in business 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 organisation. Such information may include financial or management information, for example, forecasts and budgets, financial statements*, management's discussion and analysis, and the management letter of representation provided to the auditors during the audit of the entity's financial statements*. A professional accountant in business* shall prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.

320.2 A professional accountant in business* who has responsibility for the preparation or approval of the general purpose financial statements* of an employing organisation shall be satisfied that those financial statements* are presented in accordance with the applicable financial reporting standards.

320.3 A professional accountant in business* shall take reasonable steps to maintain information for which the professional accountant in business* is responsible in a manner that:

* See Definitions for parts A, B and C

- (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) Represents the facts accurately and completely in all material respects.

320.4 Threats to compliance with the fundamental principles, for example, self-interest or intimidation threats to objectivity or professional competence and due care, are created where a professional accountant in business* is pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.

Accordingly, professional accountants shall not be associated with reports, returns, communications or other information where they believe that the information:*

- *Contains a materially false or misleading statement;*
- *Contains statements or information furnished recklessly;*
- *Omits or obscures information required to be included where such omission or obscurity would be misleading.*

320.5 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 shall be evaluated and safeguards applied when necessary to eliminate them or reduce them to an acceptable level*. Such safeguards include consultation with superiors within the employing organisation, the audit committee* or those charged with governance* of the organisation, or with *ICAEW*.

320.6 Where it is not possible to reduce the threat to an acceptable level*, a professional accountant in business* shall refuse to be or remain associated with information the professional accountant* determines is misleading. A professional accountant in business* may have been unknowingly associated with misleading information. Upon becoming aware of this, the professional accountant in business* shall take steps to be disassociated from that information. In determining whether there is a requirement to report, the professional accountant in business* may consider obtaining legal advice. In addition, the professional accountant* may consider whether to resign.

SECTION 330 - ACTING WITH SUFFICIENT EXPERTISE

330.1 The fundamental principle of professional competence and due care requires that a professional accountant in business* only undertake significant tasks for which the professional accountant in business* has, or can obtain, sufficient specific training or experience. A professional accountant in business* shall not

* See Definitions for parts A, B and C

intentionally mislead an employer as to the level of expertise or experience possessed, nor shall a professional accountant in business* fail to seek appropriate expert advice and assistance when required.

330.2 Circumstances that create a threat to a professional accountant in business* performing duties with the appropriate degree of professional competence and due care include having:

- 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.

330.3 The significance of the threat will depend on factors such as the extent to which the professional accountant in business* is working with others, relative seniority in the business, and the level of supervision and review applied to the work. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. Examples of such safeguards 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 organisation;
 - Independent experts; or
 - *ICAEW*.

330.4 When threats cannot be eliminated or reduced to an acceptable level*, professional accountants in business* shall determine whether to refuse to perform the duties in question. If the professional accountant in business* determines that refusal is appropriate, the reasons for doing so shall be clearly communicated.

SECTION 340 - FINANCIAL INTERESTS*

340.1 Professional accountants in business may have financial interests*, or may know of financial interests* of immediate or close family* members, that, in certain circumstances, may create threats to compliance with the fundamental

* See Definitions for parts A, B and C

principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include situations where the professional accountant in business* or an immediate or close family* member:

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

340.2 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level*. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level*, a professional accountant in business* shall evaluate the nature of the financial interest*. This includes evaluating the significance of the financial interest* and determining whether it is direct or indirect. What constitutes a significant or valuable stake in an organisation will vary from individual to individual, depending on personal circumstances. Examples of such safeguards include:

- Policies and procedures for a committee independent of management to determine the level or form of remuneration of senior management.
- Disclosure of all relevant interests and of any plans to trade in relevant shares to those charged with the governance of the employing organisation, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organisation.
- Consultation, where appropriate, with those charged with the governance of the employing organisation or relevant professional bodies.
- Internal and external audit procedures.

* See Definitions for parts A, B and C

- Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.

340.3 A professional accountant in business* shall neither manipulate information nor use confidential information for personal gain.

SECTION 350 – INDUCEMENTS

Receiving Offers

350.1 A professional accountant in business* or an immediate or close family* member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment, and inappropriate appeals to friendship or loyalty.

350.2 Offers of inducements may create threats to compliance with the fundamental principles. When a professional accountant in business* or an immediate or close family* member is offered an inducement, the situation shall be evaluated. Self-interest threats to objectivity or confidentiality are created when an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behaviour, or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the professional accountant in business* or an immediate or close family* member.

350.3 The existence and significance of any threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, weighing all the specific facts and circumstances, would consider the inducement insignificant and not intended to encourage unethical behaviour, then a professional accountant in business* may conclude that the offer is made in the normal course of business and may generally conclude that there is no significant threat to compliance with the fundamental principles.

350.4 The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate them or reduce them to an acceptable level*. When the threats cannot be eliminated or reduced to an acceptable level* through the application of safeguards, a professional accountant in business* shall not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards shall be adopted. A professional accountant in business* shall evaluate any threats created by such offers and determine whether to take one or more of the following actions:

- (a) Informing higher levels of management or those charged with governance* of the employing organisation immediately when such offers have been made;

- (b) Informing third parties of the offer – for example, *ICAEW* or the employer of the individual who made the offer; a professional accountant in business* may however, consider seeking legal advice before taking such a step; and
- (c) Advising 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) Informing higher levels of management or those charged with governance* of the employing organisation where immediate or close family* members are employed by competitors or potential suppliers of that organisation.

Making Offers

- 350.5** A professional accountant in business* may be in a situation where the professional accountant in business* is expected, or is under other pressure, to offer inducements to influence the judgment or decision-making process of an individual or organisation, or obtain confidential information.
- 350.6** Such pressure may come from within the employing organisation, for example, from a colleague or superior. It may also come from an external individual or organisation suggesting actions or business decisions that would be advantageous to the employing organisation, possibly influencing the professional accountant in business* improperly.
- 350.7** A professional accountant in business* shall not offer an inducement to improperly influence professional judgment of a third party.
- 350.8** Where the pressure to offer an unethical inducement comes from within the employing organisation, the professional accountant* shall follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

* See Definitions for parts A, B and C

INSOLVENCY PRACTITIONERS (PART D)

Code of Ethics for insolvency practitioners

Insolvency Practitioners should also read Part A which sets out the fundamental principles and conceptual framework that they are required to adhere to. It may also be helpful for insolvency practitioners to refer to other parts of the Code in relevant circumstances.*

PART 1 GENERAL APPLICATION OF THE CODE

The Practice of Insolvency

Introduction

- 400.1 *This Code is intended to assist Insolvency Practitioners* meet the obligations expected of them by providing professional and ethical guidance.*
- 400.2 *This Code applies to all Insolvency Practitioners*. Insolvency Practitioners should take steps to ensure that the Code is applied in all professional work relating to an insolvency appointment*, and to any professional work that may lead to such an insolvency appointment*. Although an insolvency appointment* will be of the Insolvency Practitioner* personally rather than his practice*, he should ensure that the standards set out in this Code are applied to all members of the insolvency team*.*
- 400.3 *It is this Code, and the spirit that underlies it, that governs the conduct of Insolvency Practitioners*. Failure to observe this Code may not, of itself, constitute professional misconduct, but will be taken into account in assessing the conduct of an Insolvency Practitioner*.*

Fundamental Principles

- 400.4 *An Insolvency Practitioner* is required to comply with the following fundamental principles:*

(a) Integrity

An Insolvency Practitioner should be straightforward and honest in all professional and business relationships.*

(b) Objectivity

An Insolvency Practitioner should not allow bias, conflict of interest or undue influence of others to override professional or business judgements.*

* See Definitions for Part D

(c) Professional Competence and Due Care

An Insolvency Practitioner has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. An Insolvency Practitioner* should act diligently and in accordance with applicable technical and professional standards when providing professional services.*

(d) Confidentiality

An Insolvency Practitioner 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 Insolvency Practitioner* or third parties.*

(e) Professional Behaviour

An Insolvency Practitioner should comply with relevant laws and regulations and should avoid any action that discredits the profession. Insolvency Practitioners* should conduct themselves with courtesy and consideration towards all with whom they come into contact when performing their work.*

Framework Approach

400.5 *The framework approach is a method which Insolvency Practitioners* can use to identify actual or potential threats to the fundamental principles and determine whether there are any safeguards that might be available to offset them. The framework approach requires an Insolvency Practitioner* to:*

- (a) take reasonable steps to identify any threats to compliance with the fundamental principles;*
- (b) evaluate any such threats; and*
- (c) respond in an appropriate manner to those threats.*

400.6 *Throughout this Code there are examples of threats and possible safeguards. These examples are illustrative and should not be considered as exhaustive lists of all relevant threats or safeguards. It is impossible to define every situation that creates a threat to compliance with the fundamental principles or to specify the safeguards that may be available.*

Identification of threats to the fundamental principles

400.7 *An Insolvency Practitioner* should take reasonable steps to identify the existence of any threats to compliance with the fundamental principles which arise during the course of his professional work.*

400.8 *An Insolvency Practitioner* should take particular care to identify the existence of threats which exist prior to or at the time of taking an insolvency appointment* or which, at that stage, it may reasonably be expected might arise during the course of such an insolvency appointment*. Sections insolvency appointments and professional and personal relationships below contain particular factors an*

* See Definitions for Part D

Insolvency Practitioner should take into account when deciding whether to accept an insolvency appointment*.*

400.9 *In identifying the existence of any threats, an Insolvency Practitioner* should have regard to relationships whereby the practice* is held out as being part of a national or an international association.*

400.10 *Many threats fall into one or more of five categories:*

- (a) **Self-interest threats:** *which may occur as a result of the financial or other interests of a practice* or an Insolvency Practitioner* or of a close or immediate family* member of an individual within the practice*;*
- (b) **Self-review threats:** *which may occur when a previous judgement made by an individual within the practice* needs to be re-evaluated by the Insolvency Practitioner*;*
- (c) **Advocacy threats:** *which may occur when an individual within the practice* 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, an individual within the practice* becomes too sympathetic or antagonistic to the interests of others; and*
- (e) **Intimidation threats:** *which may occur when an Insolvency Practitioner* may be deterred from acting objectively by threats, actual or perceived.*

400.11 *The following paragraphs give examples of the possible threats that an Insolvency Practitioner* may face.*

400.12 *Examples of circumstances that may create self-interest threats for an Insolvency Practitioner* include:*

- (a) *An individual within the practice* having an interest in a creditor or potential creditor with a claim which requires subjective adjudication.*
- (b) *Concern about the possibility of damaging a business relationship.*
- (c) *Concerns about potential future employment.*

400.13 *Examples of circumstances that may create self-review threats include:*

- (a) *The acceptance of an insolvency appointment* in respect of an entity* where an individual within the practice* has recently been employed by or seconded to that entity*.*
- (b) *An Insolvency Practitioner* or the practice* has carried out professional work of any description, including sequential insolvency appointments*, for that entity*.*

Such self-review threats may diminish over the passage of time.

400.14 *Examples of circumstances that may create advocacy threats include:*

- (a) *Acting in an advisory capacity for a creditor of an entity*.*

* See Definitions for Part D

- (b) *Acting as an advocate for a client in litigation or dispute with an entity*.*

400.15 *Examples of circumstances that may create familiarity threats include:*

- (a) *An individual within the practice* having a close relationship with any individual having a financial interest in the insolvent entity*.*
- (b) *An individual within the practice* having a close relationship with a potential purchaser of an insolvent's assets and/or business.*

In this regard a close relationship includes both a close professional relationship and a close personal relationship.

400.16 *Examples of circumstances that may create intimidation threats include:*

- (a) *The threat of dismissal or replacement being used to :*
 - (i) *Apply pressure not to follow regulations, this Code, any other applicable code, technical or professional standards.*
 - (ii) *Exert influence over an insolvency appointment* where the Insolvency Practitioner* is an employee rather than a principal* of the practice.*
- (b) *Being threatened with litigation.*
- (c) *The threat of a complaint being made to the Insolvency Practitioner*'s authorising body*.*

Evaluation of threats

400.17 *An Insolvency Practitioner* should take reasonable steps to evaluate any threats to compliance with the fundamental principles that he has identified.*

400.18 *In particular, an Insolvency Practitioner* should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat, would conclude to be acceptable.*

Possible Safeguards

400.19 *Having identified and evaluated a threat to the fundamental principles an Insolvency Practitioner* should consider whether there any safeguards that may be available to reduce the threat to an acceptable level. The relevant safeguards will vary depending on the circumstances. Generally safeguards fall into two broad categories. Firstly, safeguards created by the profession, legislation or regulation. Secondly, safeguards in the work environment. In the insolvency context safeguards in the work environment can include safeguards specific to an insolvency appointment*. These are considered in section insolvency appointments below. In addition, safeguards can be introduced across the practice. These safeguards seek to create a work environment in which threats are identified and the introduction of appropriate safeguards is encouraged. Some examples include:*

* See Definitions for Part D

- (a) *Leadership that stresses the importance of compliance with the fundamental principles.*
- (b) *Policies and procedures to implement and monitor quality control of engagements.*
- (c) *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 trivial, to an acceptable level.*
- (d) *Documented internal policies and procedures requiring compliance with the fundamental principles.*
- (e) *Policies and procedures to consider the fundamental principles of this Code before the acceptance of an insolvency appointment*.*
- (f) *Policies and procedures regarding the identification of interests or relationships between individuals within the practice* and third parties.*
- (g) *Policies and procedures to prohibit individuals who are not members of the insolvency team* from inappropriately influencing the outcome of an insolvency appointment*.*
- (h) *Timely communication of a practice's* policies and procedures, including any changes to them, to all individuals within the practice*, and appropriate training and education on such policies and procedures.*
- (i) *Designating a member of senior management to be responsible for overseeing the adequate functioning of the safeguarding system.*
- (j) *A disciplinary mechanism to promote compliance with policies and procedures.*
- (k) *Published policies and procedures to encourage and empower individuals within the practice* to communicate to senior levels within the practice and/or the Insolvency Practitioner* any issue relating to compliance with the fundamental principles that concerns them.*

* See Definitions for Part D

PART 2 SPECIFIC APPLICATION OF THE CODE

Insolvency Appointments

- 400.20 *The practice of insolvency is principally governed by statute and secondary legislation and in many cases is subject ultimately to the control of the Court. Where circumstances are dealt with by statute or secondary legislation, an Insolvency Practitioner* must comply with such provisions. An Insolvency Practitioner* must also comply with any relevant judicial authority relating to his conduct and any directions given by the Court.*
- 400.21 *An Insolvency Practitioner* should act in a manner appropriate to his position as an officer of the Court (where applicable) and in accordance with any quasi-judicial, fiduciary or other duties that he may be under.*
- 400.22 *Before agreeing to accept any insolvency appointment* (including a joint appointment), an Insolvency Practitioner* should consider whether acceptance would create any threats to compliance with the fundamental principles. Of particular importance will be any threats to the fundamental principle of objectivity created by conflicts of interest or by any significant professional or personal relationships. These are considered in more detail below.*
- 400.23 *In considering whether objectivity or integrity may be threatened, an Insolvency Practitioner* should identify and evaluate any professional or personal relationship (see section dealing with the assets of an entity* below) which may affect compliance with the fundamental principles. The appropriate response to the threats arising from any such relationships should then be considered, together with the introduction of any possible safeguards.*
- 400.24 *Generally, it will be inappropriate for an Insolvency Practitioner* to accept an insolvency appointment* where a threat to the fundamental principles exists or may reasonably be expected might arise during the course of the insolvency appointment* unless:*
- (a) *disclosure is made, prior to the insolvency appointment*, of the existence of such a threat to the Court or to the creditors on whose behalf the Insolvency Practitioner* would be appointed to act and no objection is made to the Insolvency Practitioner* being appointed; and*
 - (b) *safeguards are or will be available to eliminate or reduce that threat to an acceptable level. If the threat is other than trivial, safeguards should be considered and applied as necessary to reduce them to an acceptable level, where possible.*
- 400.25 *The following safeguards may be considered:*
- (a) *Involving and/or consulting another Insolvency Practitioner* from within the practice* to review the work done.*
 - (b) *Consulting an independent third party, such as a committee of creditors, an authorising body* or another Insolvency Practitioner*.*
 - (c) *Involving another Insolvency Practitioner* to perform part of the work, which may include another Insolvency Practitioner* taking a joint appointment where the conflict arises during the course of the insolvency appointment*.*

* See Definitions for Part D

- (d) *Obtaining legal advice from a solicitor or barrister with appropriate experience and expertise.*
- (e) *Changing the members of the insolvency team*.*
- (f) *The use of separate Insolvency Practitioners* and/or staff.*
- (g) *Procedures to prevent access to information by the use of information barriers (e.g. strict physical separation of such teams, confidential and secure data filing).*
- (h) *Clear guidelines for individuals within the practice* on issues of security and confidentiality.*
- (i) *The use of confidentiality agreements signed by individuals within the practice*.*
- (j) *Regular review of the application of safeguards by a senior individual within the practice* not involved with the insolvency appointment*.*
- (k) *Terminating the financial or business relationship that gives rise to the threat.*
- (l) *Seeking directions from the court.*

400.26 As regards joint appointments, where an Insolvency Practitioner is specifically precluded by this Code from accepting an insolvency appointment* as an individual, a joint appointment will not be an appropriate safeguard and will not make accepting the insolvency appointment* appropriate.*

400.27 In deciding whether to take an insolvency appointment in circumstances where a threat to the fundamental principles has been identified, the Insolvency Practitioner* should consider whether the interests of those on whose behalf he would be appointed to act would best be served by the appointment of another Insolvency Practitioner* who did not face the same threat and, if so, whether any such appropriately qualified and experienced other Insolvency Practitioner* is likely to be available to be appointed.*

400.28 An Insolvency Practitioner will encounter situations where no safeguards can reduce a threat to an acceptable level. Where this is the case, an Insolvency Practitioner* should conclude that it is not appropriate to accept an insolvency appointment*.*

400.29 Following acceptance, any threats should continue to be kept under appropriate review and an Insolvency Practitioner should be mindful that other threats may come to light or arise. There may be occasions when the Insolvency Practitioner* is no longer in compliance with this Code because of changed circumstances or something which has been inadvertently overlooked. This would generally not be an issue provided the Insolvency Practitioner* has appropriate quality control policies and procedures in place to deal with such matters and, once discovered, the matter is corrected promptly and any necessary safeguards are applied. In deciding whether to continue an insolvency appointment* the Insolvency Practitioner* may take into account the wishes of the creditors, who after full disclosure has been made have the right to retain or replace the Insolvency Practitioner*.*

* See Definitions for Part D

400.30 *In all cases an Insolvency Practitioner* will need to exercise his judgment to determine how best to deal with an identified threat. In exercising his judgment, an Insolvency Practitioner* 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 acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the work and the structure of the practice*.*

Conflicts of interest

400.31 *An Insolvency Practitioner* should take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may give rise to threats to compliance with the fundamental principles. Examples of where a conflict of interest may arise are where:*

- (a) *An Insolvency Practitioner* has to deal with claims between the separate and conflicting interests of entities over whom he is appointed.*
- (b) *There are a succession of or sequential insolvency appointments* (see section on the application of the framework to specific situations).*
- (c) *A significant relationship has existed with the entity* or someone connected with the entity* (see also section on professional and personal relationships)*

400.32 *Some of the safeguards listed at 400.25 may be applied to reduce the threats created by a conflict of interest to an acceptable level. Where a conflict of interest arises, the preservation of confidentiality will be of paramount importance; therefore, the safeguards used should generally include the use of effective information barriers.*

Practice mergers

400.33 *Where practices merge, they should subsequently be treated as one for the purposes of assessing threats to the fundamental principles. At the time of the merger, existing insolvency appointments* should be reviewed and any threats identified. Principals* and employees of the merged practice become subject to common ethical constraints in relation to accepting new insolvency appointments* to clients of either of the former practices*. However, existing insolvency appointments* which are rendered in apparent breach of the Code by such a merger need not be determined automatically, provided that a considered review of the situation by the practice* discloses no obvious and immediate ethical conflict.*

400.34 *Where an individual within the practice* has, in any former practice*, undertaken work upon the affairs of an entity* in a capacity that is incompatible with an insolvency appointment* of the new practice*, the individual should not work or be employed on that assignment.*

Transparency

400.35 *Both before and during an insolvency appointment* an Insolvency Practitioner* may acquire personal information that is not directly relevant to the insolvency or confidential commercial information relating to the affairs of third parties. The information may be such that others might expect that confidentiality would be maintained.*

* See Definitions for Part D

400.36 *Nevertheless an Insolvency Practitioner* in the role as office holder has a professional duty to report openly to those with an interest in the outcome of the insolvency. An Insolvency Practitioner* should always report on his acts and dealings as fully as possible given the circumstances of the case, in a way that is transparent and understandable. An Insolvency Practitioner* should bear in mind the expectations of others and what a reasonable and informed third party would consider appropriate.*

Professional Competence and due care

400.37 *Prior to accepting an insolvency appointment* the Insolvency Practitioner* should ensure that he is satisfied that the following matters have been considered:*

- (a) *Obtaining knowledge and understanding of the entity*, its owners, managers and those responsible for its governance and business activities.*
- (b) *Acquiring an appropriate understanding of the nature of the entity'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.*
- (c) *Acquiring knowledge of relevant industries or subject matters.*
- (d) *Possessing or obtaining experience with relevant regulatory or reporting requirements.*
- (e) *Assigning sufficient staff with the necessary competencies.*
- (f) *Using experts where necessary.*
- (g) *Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.*

400.38 *The fundamental principle of professional competence and due care requires that an Insolvency Practitioner* should only accept an insolvency appointment* when the Insolvency Practitioner* has sufficient expertise. For example, a self interest threat to the fundamental principle of professional competence and due care is created if the Insolvency Practitioner* or the insolvency team* does not possess or cannot acquire the competencies necessary to carry out the insolvency appointment*. Expertise will include appropriate training, technical knowledge, knowledge of the entity* and the business with which the entity* is concerned.*

400.39 *Maintaining and acquiring professional competence requires a continuing awareness and understanding of relevant technical and professional developments, including:*

- (a) *Developments in insolvency legislation.*
- (b) *Statements of Insolvency Practice.*
- (c) *The regulations of their authorising body*, including any continuing professional development requirements.*
- (d) *Guidance issued by their authorising body* or the Insolvency Service.*

* See Definitions for Part D

(e) *Technical issues being discussed within the profession.*

Professional and personal relationships

400.40 *The environment in which Insolvency Practitioners* work and the relationships formed in their professional and personal lives can lead to threats to the fundamental principle of objectivity.*

Identifying relationships

400.41 *In particular, the principle of objectivity may be threatened if any individual within the practice*, the close or immediate family* of an individual within the practice* or the practice* itself, has or has had a professional or personal relationship which relates to the insolvency appointment* being considered.*

400.42 *Professional or personal relationships may include (but are not restricted to) relationships with:-*

- (a) the entity*;*
- (b) any director or shadow director or former director or shadow director of the entity*;*
- (c) shareholders of the entity*;*
- (d) any principal* or employee of the entity*;*
- (e) business partners of the entity*;*
- (f) companies or entities controlled by the entity*;*
- (g) companies which are under common control;*
- (h) creditors (including debenture holders) of the entity*;*
- (i) debtors of the entity*;*
- (j) close or immediate family* of the entity*(if an individual) or its officers (if a corporate body);*
- (k) others with commercial relationships with the practice*.*

400.43 *Safeguards within the practice should include policies and procedures to identify relationships between individuals within the practice* and third parties in a way that is proportionate and reasonable in relation to the insolvency appointment* being considered.*

Is the relationship significant to the conduct of the insolvency appointment*?

400.44 *Where a professional or personal relationship of the type described in paragraph 400.41 has been identified the Insolvency Practitioner* should evaluate the impact of the relationship in the context of the insolvency appointment* being sought or considered. Issues to consider in evaluating whether a relationship creates a threat to the fundamental principles may include the following:*

- (a) The nature of the previous duties undertaken by a practice during an earlier relationship with the entity*.*

* See Definitions for Part D

- (b) *The impact of the work conducted by the practice on the financial state and/or the financial stability of the entity* in respect of which the insolvency appointment* is being considered.*
- (c) *Whether the fee received for the work by the practice* is or was significant to the practice* itself or is or was substantial.*
- (d) *How recently any professional work was carried out. It is likely that greater threats will arise (or may be seen to arise) where work has been carried out within the previous three years. However, there may still be instances where, in respect of non-audit work, any threat is at an acceptable level. Conversely, there may be situations whereby the nature of the work carried out was such that a considerably longer period should elapse before any threat can be reduced to an acceptable level.*
- (e) *Whether the insolvency appointment* being considered involves consideration of any work previously undertaken by the practice* for that entity*.*
- (f) *The nature of any personal relationship and the proximity of the Insolvency Practitioner* to the individual with whom the relationship exists and, where appropriate, the proximity of that individual to the entity* in relation to which the insolvency appointment* relates.*
- (g) *Whether any reporting obligations will arise in respect of the relevant individual with whom the relationship exists (e.g. an obligation to report on the conduct of directors and shadow directors of a company to which the insolvency appointment* relates).*
- (h) *The nature of any previous duties undertaken by an individual within the practice* during any earlier relationship with the entity*.*
- (i) *The extent of the insolvency team's* familiarity with the individuals connected with the entity*.*

400.45 *Having identified and evaluated a relationship that may create a threat to the fundamental principles, the Insolvency Practitioner* should consider his response including the introduction of any possible safeguards to reduce the threat to an acceptable level.*

400.46 *Some of the safeguards which may be considered to reduce the threat created by a professional or personal relationship to an acceptable level are considered in paragraph 400.25. Other safeguards may include:*

- (a) *Withdrawing from the insolvency team*.*
- (b) *Terminating (where possible) the financial or business relationship giving rise to the threat.*
- (c) *Disclosure of the relationship and any financial benefit received by the practice* (whether directly or indirectly) to the entity* or to those on whose behalf the Insolvency Practitioner* would be appointed to act.*

400.47 *An Insolvency Practitioner* may encounter situations in which no or no reasonable safeguards can be introduced to eliminate a threat arising from a professional or personal relationship, or to reduce it to an acceptable level. In such situations, the relationship in question will constitute a **significant** professional relationship*

* See Definitions for Part D

*(‘Significant Professional Relationship’) or a **significant** personal relationship (‘Significant Personal Relationship’). Where this is case the Insolvency Practitioner* should conclude that it is not appropriate to take the insolvency appointment*.*

400.48 Consideration should always be given to the perception of others when deciding whether to accept an insolvency appointment. Whilst an Insolvency Practitioner* may regard a relationship as not being significant to the insolvency appointment*, the perception of others may differ and this may in some circumstances be sufficient to make the relationship significant.*

* See Definitions for Part D

Dealing with the assets of an entity*

400.49 Actual or perceived threats (for example self interest threats) to the fundamental principles may arise when during an insolvency appointment, an Insolvency Practitioner* realises assets.*

400.50 Save in circumstances which clearly do not impair the Insolvency Practitioner's objectivity, Insolvency Practitioners*appointed to any insolvency appointment* in relation to an entity*, should not themselves acquire, directly or indirectly, any of the assets of an entity*, nor knowingly permit any individual within the practice*, or any close or immediate family member* of the Insolvency Practitioner* or of an individual within the practice*, directly or indirectly, to do so.*

400.51 Where the assets and business of an insolvent company are sold by an Insolvency Practitioner shortly after appointment on pre-agreed terms, this could lead to an actual or perceived threat to objectivity. The sale may also be seen as a threat to objectivity by creditors or others not involved in the prior agreement. The threat to objectivity may be eliminated or reduced to an acceptable level by safeguards such as obtaining an independent valuation of the assets or business being sold, or the consideration of other potential purchasers.*

400.52 It is also particularly important for an Insolvency Practitioner to take care to ensure (where to do so does not conflict with any legal or professional obligation) that his decision making processes are transparent, understandable and readily identifiable to all third parties who may be affected by the sale or proposed sale.*

* See Definitions for Part D

Obtaining specialist advice and services

400.53 *When an Insolvency Practitioner* intends to rely on the advice or work of another, the Insolvency Practitioner* should evaluate whether such reliance is warranted. The Insolvency Practitioner* should consider factors such as reputation, expertise, resources available and applicable professional and ethical standards. Any payment to the third party should reflect the value of the work undertaken.*

400.54 *Threats to the fundamental principles (for example familiarity threats and self interest threats) can arise if services are provided by a regular source independent of the practice*.*

400.55 *Safeguards should be introduced to reduce such threats to an acceptable level. These safeguards should ensure that a proper business relationship is maintained between the parties and that such relationships are reviewed periodically to ensure that best value and service is being obtained in relation to each insolvency appointment*. Additional safeguards may include clear guidelines and policies within the practice on such relationships. An Insolvency Practitioner* should also consider disclosure of the existence of such business relationships to the general body of creditors or the creditor's committee if one exists.*

400.56 *Threats to the fundamental principles can also arise where services are provided from within the practice or by a party with whom the practice, or an individual within the practice*, has a business or personal relationship. An Insolvency Practitioner* should take particular care in such circumstances to ensure that the best value and service is being provided.*

* See Definitions for Part D

Fees and other types of remuneration

Prior to accepting an insolvency appointment*

400.57 *Where an engagement may lead to an insolvency appointment*, an Insolvency Practitioner* should make any party to the work aware of the terms of the work and, in particular, the basis on which any fees are charged and which services are covered by those fees.*

400.58 *Where an engagement may lead to an insolvency appointment*, Insolvency Practitioners* should not accept referral fees or commissions unless they have established safeguards to reduce the threats created by such fees or commissions to an acceptable level.*

400.59 *Safeguards may include disclosure in advance of any arrangements. If after receiving any such payments, an Insolvency Practitioner* accepts an insolvency appointment*, the amount and source of any fees or commissions received should be disclosed to creditors.*

After accepting an insolvency appointment*

400.60 *During an insolvency appointment*, accepting referral fees or commissions represents a significant threat to objectivity. Such fees or commissions should not therefore be accepted other than where to do so is for the benefit of the insolvent estate.*

400.61 *If such fees or commissions are accepted they should only be accepted for the benefit of the estate; not for the benefit of the Insolvency Practitioner* or the practice*.*

400.62 *Further, where such fees or commissions are accepted an Insolvency Practitioner* should consider making disclosure to creditors.*

* See Definitions for Part D

Obtaining insolvency appointments*

400.63 *The special nature of insolvency appointments* makes the payment or offer of any commission for or the furnishing of any valuable consideration towards, the introduction of insolvency appointments* inappropriate. This does not, however, preclude an arrangement between an Insolvency Practitioner* and an employee whereby the employee's remuneration is based in whole or in part on introductions obtained for the Insolvency Practitioner* through the efforts of the employee.*

400.64 *When an Insolvency Practitioner* seeks an insolvency appointment* or work that may lead to an insolvency appointment* through advertising or other forms of marketing, there may be threats to compliance with the fundamental principles.*

400.65 *When considering whether to accept an insolvency appointment* an Insolvency Practitioner* should satisfy himself that any advertising or other form of marketing pursuant to which the insolvency appointment* may have been obtained is or has been:*

- (a) *Fair and not misleading.*
- (b) *Avoids unsubstantiated or disparaging statements.*
- (c) *Complies with relevant codes of practice and guidance in relation to advertising.*

400.66 *Advertisements and other forms of marketing should be clearly distinguishable as such and be legal, decent, honest and truthful.*

400.67 *If reference is made in advertisements or other forms of marketing to fees or to the cost of the services to be provided, the basis of calculation and the range of services that the reference is intended to cover should be provided. Care should be taken to ensure that such references do not mislead as to the precise range of services and the time commitment that the reference is intended to cover.*

400.68 *An Insolvency Practitioner* should never promote or seek to promote his services, or the services of another Insolvency Practitioner*, in such a way, or to such an extent as to amount to harassment.*

400.69 *Where an Insolvency Practitioner* or the practice* advertises for work via a third party, the Insolvency Practitioner* is responsible for ensuring that the third party follows the above guidance.*

Gifts and hospitality

- 400.70 *An Insolvency Practitioner*, or a close or immediate family* member, may be offered gifts and hospitality. In relation to an insolvency appointment*, such an offer will give rise to threats to compliance with the fundamental principles. For example, self-interest threats may arise if a gift is accepted and intimidation threats may arise from the possibility of such offers being made public.*
- 400.71 *The significance of such threats will depend on the nature, value and intent behind the offer. In deciding whether to accept any offer of a gift or hospitality the Insolvency Practitioner* should have regard to what a reasonable and informed third party having knowledge of all relevant information would consider to be appropriate. Where such a reasonable and informed third party would consider the gift to be made in the normal course of business without the specific intent to influence decision making or obtain information the Insolvency Practitioner* may generally conclude that there is no significant threat to compliance with the fundamental principles.*
- 400.72 *Where appropriate, safeguards should be considered and applied as necessary to eliminate any threats to the fundamental principles or reduce them to an acceptable level. If an Insolvency Practitioner* encounters a situation in which no or no reasonable safeguards can be introduced to reduce a threat arising from offers of gifts or hospitality to an acceptable level he should conclude that it is not appropriate to accept the offer.*
- 400.73 *An Insolvency Practitioner* should also not offer or provide gifts or hospitality where this would give rise to an unacceptable threat to compliance with the fundamental principles.*

* See Definitions for Part D

Record keeping

400.74 It will always be for the Insolvency Practitioner to justify his actions. An Insolvency Practitioner* will be expected to be able to demonstrate the steps that he took and the conclusions that he reached in identifying, evaluating and responding to any threats, both leading up to and during an insolvency appointment*, by reference to written contemporaneous records.*

400.75 The records an Insolvency Practitioner maintains, in relation to the steps that he took and the conclusions that he reached, should be sufficient to enable a reasonable and informed third party to reach a view on the appropriateness of his actions.*

* See Definitions for Part D

THE APPLICATION OF THE FRAMEWORK TO SPECIFIC SITUATIONS

Introduction to specific situations

400.76 *The following examples describe specific circumstances and relationships that will create threats to compliance with the fundamental principles. The examples may assist an Insolvency Practitioner* and the members of the insolvency team* to assess the implications of similar, but different, circumstances and relationships.*

400.77 *The examples are divided into three parts. Part 1 contains examples which do not relate to a previous or existing insolvency appointment*. Part 2 contains examples that do relate to a previous or existing insolvency appointment*. Part 3 contains some examples under Scottish law. The examples are not intended to be exhaustive.*

PART 1 - EXAMPLES THAT DO NOT RELATE TO A PREVIOUS OR EXISTING INSOLVENCY APPOINTMENT*

400.78 *The following situations involve a professional relationship which does not consist of a previous insolvency appointment*.*

400.79 Insolvency appointment following audit related work

Relationship: *The practice* or an individual within the practice* has previously carried out audit related work within the previous 3 years.*

Response: *A Significant Professional Relationship will arise: an Insolvency Practitioner* should conclude that it is not appropriate to take the insolvency appointment*.*

Where audit related work was carried out more than three years before the proposed date of the appointment of the Insolvency Practitioner a threat to compliance with the fundamental principles may still arise. The Insolvency Practitioner* should evaluate any such threat and consider whether the threat can be eliminated or reduced to an acceptable level by the existence or introduction of safeguards.*

This restriction does not apply where the insolvency appointment is in a members' voluntary liquidation; an Insolvency Practitioner* may normally take an appointment as liquidator. However, the Insolvency Practitioner* should consider whether there are any other circumstances that give rise to an unacceptable threat to compliance with the fundamental principles. Further, the Insolvency Practitioner* should satisfy himself that the directors' declaration of solvency is likely to be substantiated by events.*

400.80 Appointment as Investigating Accountant at the instigation of a creditor

Previous relationship: *The practice* or an individual within the practice* was instructed by, or at the instigation of, a creditor or other party having a financial interest in an entity*, to investigate, monitor or advise on its affairs.*

Response: *A Significant Professional Relationship would not normally arise in these circumstances provided that:-*

* See Definitions for Part D

- (a) *there has not been a direct involvement by an individual within the practice* in the management of the entity*; and*
- (b) *the practice* had its principal client relationship with the creditor or other party, rather than with the company or proprietor of the business; and*
- (c) *the entity* was aware of this.*

An Insolvency Practitioner should however consider all the circumstances before accepting an insolvency appointment*, including the effect of any discussions or lack of discussions about the financial affairs of the company with its directors, and whether such circumstances give rise to an unacceptable threat to compliance with the fundamental principles.*

Where such an investigation was conducted at the request of, or at the instigation of, a secured creditor who then requests an Insolvency Practitioner to accept an insolvency appointment* as an administrator or administrative receiver, the Insolvency Practitioner* should satisfy himself that the company, acting by its board of directors, does not object to him taking such an insolvency appointment*. If the secured creditor does not give prior warning of the insolvency appointment* to the company or if such warning is given and the company objects but the secured creditor still wishes to appoint the Insolvency Practitioner*, he should consider whether the circumstances give rise to an unacceptable threat to compliance with the fundamental principles.*

PART 2 - EXAMPLES RELATING TO PREVIOUS OR EXISTING INSOLVENCY APPOINTMENTS*

400.81 *The following situations involve a prior professional relationship that involves a previous or existing insolvency appointment*:-*

400.82 Insolvency appointment following an appointment as Administrative or other Receiver

Previous appointment: *An individual within the practice* has been administrative or other receiver.*

Proposed appointment: *Any insolvency appointment*.*

Response: *An Insolvency Practitioner* should not accept any insolvency appointment*.*

This restriction does not, however, apply where the individual within the practice was appointed a receiver by the Court. In such circumstances, the Insolvency Practitioner* should however consider whether any other circumstances which give rise to an unacceptable threat to compliance with the fundamental principles.*

400.83 Administration or Liquidation following appointment as Supervisor of a Voluntary Arrangement

Previous appointment: *An individual within the practice* has been supervisor of a company voluntary arrangement.*

Proposed appointment: *Administrator or liquidator.*

Response: *An Insolvency Practitioner* may normally accept an appointment as*

* See Definitions for Part D

administrator or liquidator. However the Insolvency Practitioner* should consider whether there are any circumstances that give rise to an unacceptable threat to compliance with the fundamental principles.

400.84 Liquidation following appointment as Administrator

Previous Appointment: An individual within the practice* has been administrator.

Proposed Appointment: Liquidator.

Response: An Insolvency Practitioner* may normally accept an appointment as liquidator provided he has complied with the relevant legislative requirements. However, the Insolvency Practitioner* should also consider whether there are any circumstances that give rise to an unacceptable threat to compliance with the fundamental principles.

400.85 Conversion of Members' Voluntary Liquidation into Creditors' Voluntary Liquidation

Previous appointment: An individual within the practice* has been the liquidator of a company in a members' voluntary liquidation.

Proposed appointment: Liquidator in a creditors' voluntary liquidation, where it has been necessary to convene a creditors' meeting.

Response: Where there has been a Significant Professional Relationship, an Insolvency Practitioner* may continue or accept an appointment (subject to creditors' approval) only if he concludes that the company will eventually be able to pay its debts in full, together with interest.

However, the Insolvency Practitioner* should consider whether there are any other circumstances that give rise to an unacceptable threat to compliance with the fundamental principles.

400.86 Bankruptcy following appointment as Supervisor of an Individual Voluntary Arrangement

Previous appointment: An individual within the practice* has been supervisor of an individual voluntary arrangement.

Proposed Appointment: Trustee in bankruptcy.

Response: An Insolvency Practitioner* may normally accept an appointment as trustee in bankruptcy. However, the Insolvency Practitioner* should consider whether there are any circumstances that give rise to an unacceptable threat to compliance with the fundamental principles.

PART 3 - EXAMPLES IN RESPECT OF CASES CONDUCTED UNDER SCOTTISH LAW

400.87 Sequestration following appointment as Trustee under a Trust Deed for creditors

Previous appointment: *An individual within the practice* has been trustee under a trust deed for creditors.*

Proposed appointment: *Interim trustee or trustee in sequestration.*

Response *An Insolvency Practitioner* may normally accept an appointment as an interim trustee or trustee in sequestration. However, the Insolvency Practitioner* should consider whether there are any circumstances that give rise to an unacceptable threat to compliance with the fundamental principles.*

400.88 Sequestration where the Accountant in Bankruptcy is Trustee following appointment as Trustee under a Trust Deed for creditors

Previous appointment: *An individual within the practice* has been trustee under a trust deed for creditors.*

Proposed appointment: *Agent for the Accountant in Bankruptcy in sequestration.*

Response: *An Insolvency Practitioner* may normally accept an appointment as agent for the Accountant in Bankruptcy. However, the Insolvency Practitioner* should consider whether there are any circumstances that give rise to an unacceptable threat to compliance with the fundamental principles.*

* See Definitions for Part D

DEFINITIONS

<i>Authorising body</i>	<i>A body declared to be a recognised professional body or a competent authority under any legislation governing the administration of insolvency in the United Kingdom.</i>
<i>Close or immediate family</i>	<i>A spouse (or equivalent), dependant, parent, child or sibling.</i>
<i>Entity</i>	<i>Any natural or legal person or any group of such persons, including a partnership.</i>
<i>He/she</i>	<i>In this Code, he is to be read as including she.</i>
<i>Individual within the practice</i>	<i>The Insolvency Practitioner*, any principals in the practice and any employees within the practice.</i>
<i>Insolvency appointment</i>	<i>A formal appointment:</i> <i>(a) which, under the terms of legislation must be undertaken by an Insolvency Practitioner; or</i> <i>(b) as a nominee or supervisor of a voluntary arrangement.</i>
<i>Insolvency Practitioner</i>	<i>An individual who is authorised or recognised to act as an Insolvency Practitioner in the United Kingdom by an authorising body*. For the purpose of the application of this Code only, the term Insolvency Practitioner also includes an individual who acts as a nominee or supervisor of a voluntary arrangement.</i>
<i>Insolvency team</i>	<i>Any person under the control or direction of an Insolvency Practitioner.</i>
<i>Practice</i>	<i>The organisation in which the Insolvency Practitioner* practises.</i>
<i>Principal</i>	<i>In respect of a practice*:</i> <i>(a) which is a company: a director;</i> <i>(b) which is a partnership: a partner;</i> <i>(c) which is a limited liability partnership: a member;</i> <i>(d) which is comprised of a sole practitioner: that person;</i> <i>Alternatively any person within the practice* who is held out as being a director, partner or member.</i>

* See Definitions for Part D

DEFINITIONS FOR PARTS A, B AND C

Acceptable level

A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant* at that time, that compliance with the fundamental principles is not compromised.

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.

Affiliates

A person granted affiliate status by ICAEW under its regulations.

Assurance client

The responsible party that is the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the subject matter; or
- (b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.

Assurance engagement

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

(For guidance on assurance engagements see the International Framework for Assurance engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review engagements (ISREs) and International Standards on Assurance engagements (ISAEs) apply.) www.ifac.org/IAASB/Pronouncements.php.

Assurance team

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

* See Definitions for parts A, B and C

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

Audit client

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

Audit engagement

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

Audit team

- (a) All members of the engagement team* for the audit engagement*;
- (b) All others within a firm* who can directly influence the outcome of the audit engagement*, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner* in connection with the performance of the audit engagement* including those at all successively senior levels above the engagement partner* through to the individual who is the firm's* Senior or Managing Partner* (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review* for the engagement; and
- (c) All those within a network firm* who can directly influence the outcome of the audit engagement*.

Audit committee

Those charged with governance. This may be a separate committee or the full Board.*

* See Definitions for parts A, B and C

Close family

A parent, child or sibling who is not an immediate family* member.

Contingent fee

A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm*. A fee that is established by a court or other public authority is not a contingent fee*.

Direct financial interest

A financial interest*:

- 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, or the ability to influence investment decisions.

Director or officer

Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which may vary from jurisdiction to jurisdiction.

Engagement partner

The partner* or other person in the firm* who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm*, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement quality control review

A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team* made and the conclusions it reached in formulating the report.

Engagement team

All partners* and staff performing the engagement, and any individuals engaged by the firm* or a network firm* who perform assurance procedures on the engagement. This excludes external experts* engaged by the firm* or a network firm*.

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.

* See Definitions for parts A, B and C

External expert

An individual (who is not a partner* or a member of the professional staff, including temporary staff, of the firm* or a network firm*) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant* in obtaining sufficient appropriate evidence.

Financial interest

An interest in equity or other security, debenture, loan* or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial statements

A structured representation of historical financial information*, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

Financial statements on which the firm will express an opinion

In the case of a single entity, the financial statements* of that entity. In the case of consolidated financial statements*, also referred to as group financial statements*, the consolidated financial statements*.

Firm

- (a) *A member firm**;
- (b) An entity that controls a *member firm**, through ownership, management or other means; and
- (c) An entity controlled by a *member firm**, through ownership, management or other means.

Historical financial information

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

Immediate family

A spouse (or equivalent) or dependent.

* See Definitions for parts A, B and C

Independence

Independence* is:

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

Key audit partner

The engagement partner*, the individual responsible for the engagement quality control review*, and other audit partners*, if any, on the engagement team* who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm* will express an opinion*. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners*" may include, for example, audit partners* responsible for significant subsidiaries or divisions.

Listed entity

An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

Loan

A sum of money lent, whether direct or through a third party, with the intention that it will be repaid with or without interest.

Member

A member of ICAEW, an affiliate, an employee of a member firm* or affiliate*, or a provisional member.*

Member firm

This means, for the purposes of this Code:

- (a) *A member* engaged in public practice as a sole practitioner, or*

* See Definitions for parts A, B and C

- (b) *A partnership engaged in public practice of which more than 50 per cent of the right to vote on all, or substantially all, matters of substance at meetings of the partnership is held by members*;* or
- (c) *A limited liability partnership engaged in public practice of which more than 50 per cent of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership is held by members*;* or
- (d) *Any body corporate (other than a limited liability partnership) engaged in public practice of which:*
 - (i) *50 per cent or more of the directors* are members*;* and
 - (ii) *More than 50 per cent of the nominal value of the voting shares is held by members*;* and
 - (iii) *More than 50 per cent of the aggregate in nominal value of the voting and non-voting shares is held by members*.*

Network

A larger structure:

- (a) That is aimed at co-operation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm

A firm* or entity that belongs to a network*.

Partner or principal

References to a partner or principal of a firm include the following:*

- *A partner/principal;*
- *A sole-practitioner;*
- *A director* of a corporate firm*;*
- *A member of a limited liability partnership;*
- *An employee of a corporate firm* who is:*
 - *A responsible individual within the meaning of the Audit Regulations;*
 - *A licensed insolvency practitioner; or*

* See Definitions for parts A, B and C

- *Defined as such in circumstances determined by Council*

Office

A distinct sub-group, whether organised on geographical or practice lines.

Professional accountant

An individual who is a member* of an IFAC member body.

Professional accountant in business

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

A professional accountant in business may be a salaried employee, a partner, director* (whether executive or non-executive), an owner manager, a volunteer, or another working for one or more employing organisations. The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.*

Professional accountant in public practice

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

Professional service

Services requiring accountancy or related skills performed by a professional accountant* including accounting, auditing, taxation, management consulting and financial management services.

Provisional member

A person:

- (a) *who is training under a training agreement; or has registered their period of approved training*
- (b) *who has trained under such agreement or period of approved training and is eligible either to sit for the ACA examinations of ICAEW or, having successfully sat those examinations, to apply for membership;*

and for the purposes only of this definition an order under bye-law 22(7) (d) of the Disciplinary Bye-laws (concerning eligibility to sit examinations) shall be disregarded.

* See Definitions for parts A, B and C

Public interest entity

- (a) A listed entity*; and
- (b) An entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence* requirements that apply to the audit of listed entities*. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

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 if the client is material to such entity;
- (b) An entity with a direct financial interest* in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest* that gives it significant influence over such entity and the interest is material to the client and its related entity (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

Review client

An entity in respect of which a firm* conducts a review engagement*.

Review engagement

An assurance engagement*, conducted in accordance with International Standards on Review engagements or equivalent, in which a professional accountant in public practice* expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant’s attention that causes the accountant to believe that the financial statements* are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review team

- (a) All members of the engagement team* for the review engagement*; and
- (b) All others within a firm* who can directly influence the outcome of the review engagement*, including:

* See Definitions for parts A, B and C

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner* in connection with the performance of the review engagement* including those at all successively senior levels above the engagement partner* through to the individual who is the firm's* Senior or Managing Partner* (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review* for the engagement; and
- (c) All those within a network firm* who can directly influence the outcome of the review engagement*.

Special purpose financial statements

Financial statements* prepared in accordance with a financial reporting framework designed to meet the financial needs of specified users

Those charged with governance

The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

See also section 1.4 for a discussion of the use of the word 'shall'

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* See Definitions for parts A, B and C