

# BY-LAWS (ON PROFESSIONAL ETHICS, CONDUCT AND PRACTICE) OF THE MALAYSIAN INSTITUTE OF ACCOUNTANTS



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## PREFACE

The Revised By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants are issued by the Council of the Malaysian Institute of Accountants come into effect on **1 January 2011** unless otherwise stated herein. The Revised By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants are issued pursuant to section 10(a) of the Accountants Act 1967 and is binding on all members of the Malaysian Institute of Accountants.

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## FOREWORD

### 1. FOREWORD

1. These By-Laws are made by the Council of the Malaysian Institute of Accountants (the 'Institute') on 29 July 2010 pursuant to Section 10(a) of the Accountants Act 1967, and shall come into effect on **1 January 2011** unless otherwise stated herein.
2. These By-Laws may be cited collectively as the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants [**Issued December 2010**] and revokes and supercedes the Institute's existing By-Laws (On Professional Conduct and Ethics) [Issued January 2007] and other By-Laws that have been issued by the Council. However, such revocation shall not affect any investigation or disciplinary proceedings before the Investigation Committee or the Disciplinary Committee respectively in respect of any offences or breaches committed pursuant to the relevant By-Laws applicable at the time of the offence or breach.
3. The By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants comprise of two main parts. Part I relates to the By-Laws on Professional Ethics which is substantially based on the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC). The By-Laws on Professional Ethics establishes the ethical requirements and standards applicable to all members of the Institute as professional accountants. Part II of these By-Laws relates to the By-Laws on Professional Conduct and Practice which contain prescriptive obligations applicable to members or member firms (as defined herein) of the Institute in respect of their professional conduct or the practice of their firms.
4. The By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants set the standards of professional ethics and professional conduct for members and member firms in view of the professional responsibilities and duties owed to their clients, employers, the authorities and the public. In recognising the significant role played by the accountancy profession in society, these By-Laws have been framed with the objective that members exhibit the highest standards of ethics, professionalism and professional conduct that are expected of the profession.
5. A breach of these By-Laws will prima facie give rise to a complaint of unprofessional conduct against the member concerned. As such, members who fail to observe proper standards of ethics and professional conduct as set out in these by-laws may be required to answer a complaint before the Investigation and the Disciplinary Committees of the Institute pursuant to the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P.U.(A) 229/2002].

## FOREWORD

6. This Foreword and the Definitions set out in the next section, form part of these By-Laws and should be construed accordingly. Likewise, any additional guidance, explanatory notes or commentary which are included in these By-Laws to provide further guidance or to explain the intention and meaning of a certain paragraph or sub-paragraph of the By-Laws, also form part of these By-Laws and should be construed accordingly. However, the additional guidance, explanatory notes or commentary are not and cannot be all encompassing and it is for members to exercise their own judgment in applying the principles and the spirit of the By-Laws to the circumstances in which they find themselves at any given time.
7. Due compliance with the provisions in these By-Laws is the responsibility of each member as professional accountants.
8. The Council of the Institute may from time to time amend these By-Laws. It is the responsibility of members to update themselves and ensure that they understand, comprehend and implement the requirements in these By-Laws.

1 January 2011

NOTE: Whilst Part I of the By-Laws substantially incorporates the IFAC Code of Ethics, additions or deletions have been made to Part I and the Definitions section to ensure consistency with the Malaysian regulatory or legislative framework and to suit the Malaysian professional environment, or to incorporate additional provisions that were originally contained in the Institute's By-Laws (On Professional Conduct and Ethics) [Issued January 2007].

## DEFINITIONS

### 2. DEFINITIONS

In these By-Laws, the following expressions have the following meanings assigned to them, unless the context clearly requires otherwise:

- |       |                          |  |
|-------|--------------------------|--|
| (i)   | 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. |
| (ii)  | <i>Act</i>               | <i>The Accountants Act 1967.</i>   |
| (iii) | 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.  |
| (iv)  | approved company auditor | Member in public practice approved as a company auditor under the Companies Act, and whose approval has not been revoked.  |

**Inserted on 26 May 2016;  
effective immediately.**

- |      |                      |   |
|------|----------------------|---|
| (v)  | assurance client     | <p>The responsible party that is the person (or persons) who:</p> <p>(a) In a direct reporting engagement, is responsible for the subject matter; or</p> <p>(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</p>  |
| (vi) | assurance engagement | <p>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.</p> <p>(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.)</p> |

## DEFINITIONS

- |        |                  |   |
|--------|------------------|---|
| (vii)  | assurance team   | <p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p style="padding-left: 40px;">(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;</p> <p style="text-align: center; padding-left: 100px;"><b>Amended on 26 May 2016;<br/>effective 1 August 2016.</b></p> <p style="padding-left: 40px;">(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</p> <p style="padding-left: 40px;">(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</p> |
| (viii) | 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.  |
| (ix)   | 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.  |
| (x)    | audit team       | <p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <p style="padding-left: 40px;">(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the</p>  |

## DEFINITIONS

engagement partner in connection with the performance of the assurance engagement;

**Amended on 26 May 2016;  
effective 1 August 2016.**

- (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
- 
- |        |                   |  |
|--------|-------------------|--|
| (xi)   | CARE              | <p><i>Chartered Accountant's Relevant Experience.</i></p> <p>(An assessment programme that focuses on the entry level of competency required for admission as a Chartered Accountant of the Institute)</p>   |
| (xii)  | close family      | A parent, child or sibling, who is not an immediate family member.   |
| (xiii) | <i>commission</i> | <i>Commission includes commission paid in cash and in kind.</i>  |
| (xiv)  | 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.  |
| (xv)   | <i>Council</i>    | <i>The Council of the Malaysian Institute of Accountants established by section 8 of the Act.</i>  |
| (xvi)  | CPE               | <i>Continuing Professional Education.</i>  |
| (xvii) | CPE cycle         | <p>CPE cycle is three consecutive calendar years commencing on:</p> <ul style="list-style-type: none"> <li style="margin-left: 20px;">(a) the first day of the calendar year immediately following the end of the previous CPE cycle applicable to the professional accountant; or</li> <li style="margin-left: 20px;">(b) <ul style="list-style-type: none"> <li style="margin-left: 20px;">(i) the first day of the calendar year in which the professional accountant is first admitted to the Institute, if first admitted prior to 30 June of that year; or</li> <li style="margin-left: 20px;">(ii) first day of the calendar year immediately following the year in which the professional</li> </ul> </li> </ul> |

## DEFINITIONS

accountant is first admitted to the Institute, if first admitted after 30 June of that year.

(xviii)	CPE learning activities	CPE learning activities that develop and maintain capabilities to enable professional accountants to perform competently within their professional environments. CPE learning activities may comprise of structured and unstructured learning activities.
(xix)	direct financial interest	<p>A financial interest which is:</p> <p>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</p> <p>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.</p>
(xx)	director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, and include those persons defined in other relevant legislations.

**Amended on 26 May 2016;  
effective 1 August 2016.**

(xxi)	engagement partner	The partner 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.
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**Amended on 1 November 2013;  
effective 1 January 2014.**

(xxii)	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 they reached in formulating the report.
(xxiii)	engagement team	<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised</p>

## DEFINITIONS

2013), *Using the Work of Internal Auditors*.<sup>1</sup>

**Amended on 22 July 2013;  
effective for audits of financial statements for periods  
ending on or after December 15, 2014.**

(xxiv)	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.
(xxv)	external expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
(xxvi)	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.
(xxvii)	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.
(xxviii)	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.
(xxix)	firm	(a) A sole practitioner, partnership or corporation of professional accountants;

**Amended on 26 May 2016;  
effective 1 August 2016.**

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<sup>1</sup> ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

## DEFINITIONS

		(b) An entity that controls such parties through ownership, management or other means; or
		(c) An entity controlled by such parties through ownership, management or other means.
(xxx)	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.
(xxxi)	immediate family	A spouse (or equivalent) or dependant.
(xxxii)	independence	Independence is: <ul style="list-style-type: none"> <li>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.</li> <li>(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 assurance team's, integrity, objectivity or professional skepticism has been compromised.</li> </ul>
(xxxiii)	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.
(xxxiv)	<i>Institute</i>	<i>The Malaysian Institute of Accountants established by section 3 of the Act.</i>
(xxxv)	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.
(xxxvi)	listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the



## DEFINITIONS

regulations of a recognized stock exchange or other equivalent body.

(xxxvii)      *member*                      *A professional accountant who is registered with the Institute in accordance with the Act as a chartered accountant, licensed accountant or an associate member.*

(xxxviii)      *member in public practice*                      *A member (other than an associate member) who as a sole proprietor or in a partnership, provides or is engaged in public practice services in return for a fee or reward for such services otherwise than as an employee, and who holds a valid practicing certificate issued pursuant to rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.*

*(This definition is narrower than the definition of professional accountants in public practice below, as it is confined to those members providing public practice services who hold valid practicing certificates.)*

(xxxix)      *member firm*                      *A firm which consists of persons who are members of the Institute and which is established pursuant to section 500 herein.*

**Amended on 1 November 2013;  
effective 1 January 2014.**

(xl)              *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 common brand-name, or a significant part of professional resources.*

(xli)              *network firm*                      *A firm or entity that belongs to a network.*

(xlii)              *office*                      *A distinct sub-group, whether organized on geographical or practice lines.*

(xliii)              *partnership*                      *Refers to a conventional partnership and a limited liability partnership.*

**Amended on 1 November 2013;  
effective 1 January 2014.**

(xliv)              *professional accountant*                      *An individual who is a member of the Institute.*

**Amended on 26 May 2016;**

## DEFINITIONS

**effective 1 August 2016.**

(xiv)	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.
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(xlv)	professional accountant in public practice	A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides public practice services. This term is also used to refer to a firm of professional accountants in public practice.
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(xlvii)	professional activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.
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**Inserted on 26 May 2016;  
effective 1 August 2016.**

(xlviii)	professional services	Professional activities performed for clients.
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**Amended on 26 May 2016;  
effective 1 August 2016.**

(xlix)	public interest entity	<div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">(a)</div> <div>A listed entity; and</div> </div> <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">(b)</div> <div> <div style="margin-bottom: 10px;">An entity:</div> <div style="margin-left: 20px;"> <div style="margin-bottom: 10px;">(i)</div> <div>Defined by regulation or legislation as a public interest entity; or</div> </div> <div style="margin-left: 20px;"> <div style="margin-bottom: 10px;">(ii)</div> <div>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.</div> </div> </div> </div>
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**Amended on 26 May 2016;  
effective 1 August 2016.**

(†)	<del>public practice services</del>	
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**Removed on 26 May 2016;  
effective 1 August 2016**

(l)	related entity	<p>An entity that has any of the following relationships with the client:</p> <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">(a)</div> <div>An entity that has direct or indirect control over the</div> </div>
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## DEFINITIONS

- client provided the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
  - (c) An entity over which the client has direct or indirect control;
  - (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
  - (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.
- 
- |        |                   |  |
|--------|-------------------|--|
| (li)   | review client     | An entity in respect of which a firm conducts a review engagement.   |
| (lii)  | 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.   |
| (liii) | review team       | <ul style="list-style-type: none"> <li>(a) All members of the engagement team for the review engagement; and</li> <li>(b) All others within a firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> <li>(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);</li> <li>(ii) Those who provide consultation regarding</li> </ul> </li> </ul> |

## DEFINITIONS

		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.
(liv)	<i>Rules</i>	<i>The rules of the Institute made from time to time pursuant to section 7 of the Act and duly gazetted.</i>
(lv)	special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
(lvi)	<i>structured CPE learning activities</i>	<i>CPE learning activities which have a clear set of objectives and a logical framework. Structured CPE learning activities include attendances either as presenter/lecturer or participant at short courses, conferences and seminars, recognized post-graduate studies or diploma courses and formal 'home study' or distance learning courses which require participation and assessment. Such activities include participation or rendering services in a technical committee where technical material is prepared by the professional accountant, or writing technical articles, papers or books for publication.</i>
(lvii)	those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
		<b>Amended on 29 May 2014; effective 1 July 2014.</b>
(lviii)	unprofessional conduct	Conduct which is discreditable to the accountancy profession and includes gross carelessness, neglect and incapacity in the performance of professional duties, impropriety in professional conduct and conduct unbecoming of a professional accountant.

## DEFINITIONS

(lix)	<i>unstructured CPE learning activities</i>	<i>CPE learning activities which include private reading and study, and technical research for practical work.</i>
(lx)	<i>verifiable CPE learning</i>	<i>CPE learning activities which can be objectively verified by a competent source. Examples of evidence for verification of CPE learning include attendance certificates, course outlines and materials, evidence of enrolment or registration in a CPE activity, qualification or assessment reports, employer's reports or confirmations of participation in in-house CPE activities or training programmes, academic awards and receipts.</i>

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **3. PART I: BY-LAWS ON PROFESSIONAL ETHICS**

#### **EXPLANATORY FOREWORD**

1. Part I of the By-Laws of the Institute consists of the By-Laws on Professional Ethics which incorporates the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC) revised in July 2009 and as amended by IFAC from time to time, as well as additional requirements applicable to the Malaysian regulatory and professional environment. The By-Laws on Professional Ethics establishes the ethical requirements and standards applicable to all members of the Institute as professional accountants.
2. A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with the ethical requirements in these By-Laws. If a professional accountant is prohibited from complying with certain parts of these By-Laws by law or regulation, the professional accountant shall comply with all other parts of these By-Laws.

**Amended on 26 May 2016;  
effective 1 August 2016.**

3. The By-Laws on Professional Ethics consists of three 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 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.
4. 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,

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

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 the guidance in Part C relevant to their particular circumstances.

5. The use of the word “shall” in these By-Laws 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 these By-Laws.

**Amended on 26 May 2016;  
effective 1 August 2016.**

6. Statutory provisions and laws in Malaysia prevails over the By-laws and it is not required to be mentioned in the specific related provisions of the By- Laws. It is implied throughout the By-Laws where applicable that statutory provisions and laws in Malaysia shall prevail over the By-Laws.

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **PART A: GENERAL APPLICATION**

Section 100	Fundamental Principles and Conceptual Framework
Section 110	Integrity
Section 120	Objectivity
Section 130	Professional Competence and Due Care
Section 140	Confidentiality
Section 150	Professional Behaviour



## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 100 Fundamental Principles and Conceptual Framework**

#### **100.1 Fundamental Principles**

- 100.1 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 should avoid any conduct that discredits the profession.

**Amended on 4 January 2017;  
effective 15 July 2017.**

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

#### **100.2 – 100.7 Conceptual Framework Approach**

- 100.2 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, the By-Laws 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 the By-

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

Laws 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.

- 100.3 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.
- 100.4 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.
- 100.5 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 activity or service involved, or when necessary, resign from the engagement (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 100.6 Sections 290 and 291 contain provisions with which a professional accountant shall comply if the professional accountant identifies a breach of an independence provision of the By-Laws. If a professional accountant identifies a breach of any other provision of this By-Laws, the professional accountant shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The accountant shall determine whether to report

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

the breach, for example, to those who may have been affected by the breach, a member body, relevant regulator or oversight authority.

**Amended on 22 July 2013;  
effective 1 April 2014.**

- 100.7 When a professional accountant encounters unusual circumstances in which the application of a specific required of the By-Laws 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 a member's body or the relevant regulator.

### **100.8 – 100.12 Threats and Safeguards**

- 100.8 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstances 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 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 judgment or behavior;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or activity or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity or providing a current service;

**Amended on 26 May 2016;  
effective 1 August 2016.**

- (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.

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

Parts B and C respectively 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.

- 100.9 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.
- 100.10 Safeguards created by the profession, legislation or regulation include:
- (a) Educational, training and experience requirements for entry into the profession.
  - (b) Continuing professional development requirements.
  - (c) Corporate governance regulations.
  - (d) Professional standards.
  - (e) Professional or regulatory monitoring and disciplinary procedures.
  - (f) External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.
- 100.11 Parts B and C respectively, discuss safeguards in the work environment for professional accountants in public practice and professional accountants in business respectively.
- 100.12 Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organization, include:
- (a) Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.
  - (b) An explicitly stated duty to report breaches of ethical requirements.

### **100.13 – 100.14 Conflicts of Interest**

*(The heading for section 100.13 – 100.14 was amended on 22 July 2013; effective 1 July 2014)*

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

100.13 A professional accountant may be faced with a conflict of interest when undertaking a professional activity.<sup>2</sup> A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
- The interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict.

**Section 100.13 was inserted on 22 July 2013;  
effective 1 July 2014.**

100.14 Parts B and C of this By-Laws discuss conflicts of interest for professional accountants in public practice and professional accountants in business, respectively.

**Section 100.14 was inserted on 22 July 2013;  
effective 1 July 2014.**

### **100.15 – 100.20 Ethical Conflict Resolution**

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

100.16 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) Ethical issues involved;
- (c) Fundamental principles related to the matter in question;
- (d) Established internal procedures; and
- (e) 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

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<sup>2</sup> **New Definition:** Professional Activity: An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

accountant may wish to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.

- 100.17 Where a matter involves a conflict with, or within, an organization, a professional accountant shall determine whether to consult with those charged with governance of the organization, such as the board of directors or the audit committee.
- 100.18 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.
- 100.19 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body 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 the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege.
- 100.20 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, unless prohibited by law, 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 organization.

**Amended on 4 January 2017;  
effective 15 July 2017.**

**Sections under “Ethical Conflict Resolution” was previously numbered as  
Section 100.13 – 100.18. The sections have been renumbered to  
Section 100.15 - 100.20 on 22 July 2013;  
effective 1 July 2014.**

**Sections 100.21 – 100.24 are intentionally kept blank.**

### **100.25 – 100.26 Communicating with Those Charged with Governance**

- 100.25 When communicating with those charged with governance in accordance with the provisions of this By-Laws, the professional accountant or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the professional accountant or firm communicates with a subgroup of those charged with

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

governance, for example, an audit committee or an individual, the professional accountant or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

**Section 100.25 was inserted on 29 May 2014;  
effective 1 July 2014**

- 100.26 In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The professional accountant or firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the professional accountant or firm would otherwise communicate in their governance capacity.

**Section 100.26 was inserted on 4 January 2017;  
effective 15 July 2017**

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 110 Integrity**

#### **110.1 – 110.3 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.
- 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.

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 120    Objectivity**

#### **120.1 – 120.2 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.
- 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 activity or service if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect to that service.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 130 Professional Competence and Due Care**

#### **130.1 – 130.6 Professional Competence and Due Care**

- 130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
  - (b) To act diligently in accordance with applicable technical and professional standards when performing professional activities or providing professional services.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 130.1A *With reference to paragraph 130.1, the applicable technical and professional standards include but are not limited to standards on Quality Control, Auditing Review, Other Assurance and Related Services; Recommended Practice Guides; Financial Reporting Standards Implementation Committee (FRSIC) Consensus; guidance notes and other pronouncements approved and issued by the Council; and approved accounting standards issued by relevant authorities. These are merely examples of the applicable technical and professional standards and by no means exhaustive.*

**Section 130.1A was inserted on 26 May 2016;  
effective 1 August 2016.**

- 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.

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

- 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 professional services or activities aware of the limitations inherent in the services or activities.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 140 Confidentiality**

#### **140.1 – 140.8 Confidentiality**

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

- (a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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

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

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.

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.

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

- 140.7 As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the professional accountant. Nevertheless, 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 authorized by the client or the employer;
  - (b) Disclosure is required by law, for example:
    - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
    - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
  - (c) There is a professional duty or right to disclose, when not prohibited by law:
    - (i) To comply with the quality review of the Institute ;
    - (ii) To respond to an inquiry or investigation by the Institute's Investigation Committee or Disciplinary Committee or any other regulatory body;
    - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
    - (iv) To comply with technical and professional standards, including ethical requirements.

Please also refer to the additional guidance on confidentiality in Appendix I to the By-Laws.

**Amended on 4 January 2017;  
effective 15 July 2017.**

- 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.

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 150 Professional Behavior**

#### **150.1 Professional Behavior**

- 150.1 The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know may discredit the profession. This includes conduct 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.

**Amended on 4 January 2017;  
effective 15 July 2017.**

**Section 150.1A was removed on 26 May 2016;  
effective 1 August 2016.**

#### **150.2 – 150.3 Advertising, Marketing and Promotions**

- 150.2 In advertising, marketing or promoting themselves and their work, professional accountants shall not bring the profession into disrepute and shall ensure that such advertisement, marketing or promotional material is:
- (a) professionally dignified and in good taste; and
  - (b) carried out in accordance with the relevant legislation where applicable.
- 150.3 Professional accountants shall be honest and truthful and shall 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.

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **PART B: PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

Section 200	Introduction
Section 210	Professional Appointment
Section 220	Conflicts of Interest
Section 230	Second Opinions
Section 240	Fees and Other Types of Remuneration
Section 250	Marketing Public Practice Services
Section 260	Gifts and Hospitality
Section 270	Custody of Client Assets
Section 280	Objectivity—All Services
Section 290	Independence—Audit and Review Engagements
Section 291	Independence—Other Assurance Engagements

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 200 Introduction**

#### **200.1 – 200.2 Introduction**

- 200.1 Part B describes how the conceptual framework contained in Part A applies to 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 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.

#### **200.3 – 200.15 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.

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



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- (a) A member of the assurance team having a direct financial interest in the assurance client.
- (b) A firm having undue dependence on total fees from a client.
- (c) A member of the assurance team having a significant close business relationship with an assurance client.
- (d) A firm being concerned about the possibility of losing a significant client.
- (e) A member of the audit team entering into employment negotiations with the audit client.
- (f) A firm entering into a contingent fee arrangement relating to an assurance engagement.
- (g) 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) A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- (b) A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- (c) A member of the assurance team being, or having recently been, a director or officer of the client.
- (d) 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.
- (e) 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:

- (a) The firm promoting shares in an audit client.
- (b) 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) A member of the engagement team having a close or immediate family member who is a director or officer of the client.

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- (b) 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.
- (c) 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.
- (d) A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
- (e) 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) A firm being threatened with dismissal from a client engagement.
- (b) 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.
- (c) A firm being threatened with litigation by the client.
- (d) A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- (e) 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.
- (f) 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 100.10 of Part A.

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 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

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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:

- (a) Leadership of the firm that stresses the importance of compliance with the fundamental principles.
- (b) Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest.
- (c) Policies and procedures to implement and monitor quality control of engagements.
- (d) 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.
- (e) Documented internal policies and procedures requiring compliance with the fundamental principles.
- (f) Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- (g) Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- (h) Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- (i) Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- (j) 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.
- (k) Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- (l) Advising partners and professional staff of those assurance clients and related entities from which independence is required.
- (m) A disciplinary mechanism to promote compliance with policies and procedures.

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- (n) 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:
- (a) Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
  - (b) Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
  - (c) Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
  - (d) Discussing ethical issues with those charged with governance of the client.
  - (e) Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
  - (f) Involving another firm to perform or re-perform part of the engagement.
  - (g) 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:
- (a) The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement.
  - (b) The client has competent employees with experience and seniority to make managerial decisions.
  - (c) The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
  - (d) The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

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### **Section 210 Professional Appointment**

#### **210.1 – 210.4 Client Acceptance and Continuance**

- 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 behavior may be created from, for example, issues associated with the client (its owners, management or activities) that, if known, could threaten compliance with the fundamental principles. These include, for example, client involvement in illegal activities (such as money laundering), dishonesty, questionable financial reporting practices or other unethical behavior.
- 210.2 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:
- (a) Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
  - (b) Securing the client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 210.3 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.
- 210.4 Potential threats to compliance with the fundamental principles may have been created after acceptance that would have caused the professional accountant to decline the engagement had that information been available earlier. A professional accountant in public practice shall, therefore, periodically review whether to continue with a recurring client engagement. For example, a threat to compliance with the fundamental principles may be created by a client's unethical behavior such as improper earnings management or balance sheet valuations. If a professional accountant in public practice identifies a threat to compliance with the fundamental principles, the professional accountant shall evaluate the significance of the threats and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Where it is not possible to reduce the threat to an acceptable level, the professional accountant in public practice shall consider terminating the client relationship where termination is not prohibited by law or regulation.

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### **210.5 – 210.7 Engagement Acceptance**

- 210.5 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 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.
- 210.6 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. Such safeguards may include:
- (a) 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.
  - (b) Acquiring knowledge of relevant industries or subject matters.
  - (c) Possessing or obtaining experience with relevant regulatory or reporting requirements.
  - (d) Assigning sufficient staff with the necessary competencies.
  - (e) Using experts where necessary.
  - (f) Agreeing on a realistic time frame for the performance of the engagement.
  - (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.
- 210.7 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.

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### **210.8 – 210.14 Changes in a Professional Appointment**

- 210.8 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.
- 210.9 A professional accountant in public practice shall evaluate the significance of any threats. Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:
- (a) When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing or predecessor accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
  - (b) Asking the predecessor accountant to provide known information on any facts or circumstances that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether 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 predecessor accountant that may influence the decision to accept the appointment.; or
  - (c) Obtaining necessary information from other sources.
- 210.10 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.
- 210.10A *In the case of a financial statement audit engagement, no member in public practice shall accept nomination for the engagement without enquiring from the existing auditor as to whether there is any professional or other reason for the proposed change of which he should be aware before deciding whether or not to accept the appointment and, if there are such reasons, requesting the existing auditor to provide him with all the details necessary to enable him to come to a decision.*

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- 210.11 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.
- 210.12 An existing or predecessor 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.
- 210.13 A professional accountant in public practice will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an existing or predecessor accountant. Where:
- (a) permission is refused, the professional accountant in public practice shall decline the appointment.
  - (b) permission is obtained, the existing or predecessor accountant shall comply with relevant laws and regulations governing such requests. Where the existing or predecessor accountant provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing or predecessor 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.
- 210.14 In the case of an audit of financial statements, a professional accountant shall request the predecessor accountant to provide known information regarding any facts or other information that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraph 225.31:



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- (a) If the client consents to the predecessor accountant disclosing any such facts or other information, the predecessor accountant shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the predecessor accountant permission to discuss the client's affairs with the proposed successor accountant, the predecessor accountant shall disclose this fact to the proposed successor accountant, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.

**Section 210.14 was inserted on 4 January 2017;**

**effective 15 July 2017**

*Please refer to the procedures for seeking professional clearance as set out in Appendix II to the By-Laws.*

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### **Section 220 Conflicts of Interest**

#### **220.1 – 220.14 Conflicts of Interest**

220.1 A professional accountant in public practice may be faced with a conflict of interest when performing a professional service.<sup>3</sup> A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
- The interests of the professional accountant with respect to a particular matter and the interests of the client for whom the professional accountant provides a professional service related to that matter are in conflict.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

When the professional service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Sections 290 or 291 as appropriate.

**Amended on 22 July 2013;  
effective 1 July 2014.**

220.2 Examples of situations in which conflicts of interest may arise include:

- Providing a transaction advisory service to a client seeking to acquire an audit client of the firm, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction.
- Advising two clients at the same time who are competing to acquire the same company where the advice might be relevant to the parties' competitive positions.
- Providing services to both a vendor and a purchaser in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.

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<sup>3</sup> **Revised Definition:** Professional Services: Professional activities performed for clients.

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- Representing two clients regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership.
- Providing an assurance report for a licensor on royalties due under a license agreement when at the same time advising the licensee of the correctness of the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant in public practice has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on the acquisition of a business which the firm is also interested in acquiring.
- Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service.

**Amended on 22 July 2013;  
effective 1 July 2014.**

- 220.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in public practice 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 compliance with the fundamental principles is not compromised.

**Amended on 22 July 2013;  
effective 1 July 2014.**

- 220.4 When addressing conflicts of interest, including making disclosures or sharing information within the firm or network and seeking guidance of third parties, the professional accountant in public practice shall remain alert to the fundamental principle of confidentiality.

**Amended on 22 July 2013;  
effective 1 July 2014.**

- 220.5 If the threat created by a conflict of interest is not at an acceptable level, the professional accountant in public practice shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the professional accountant shall decline to perform or shall discontinue professional services that would result in the conflict

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of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

**Amended on 22 July 2013;  
effective 1 July 2014.**

220.6 Before accepting a new client relationship, engagement, or business relationship, a professional accountant in public practice shall take reasonable steps to identify circumstances that might create a conflict of interest, including identification of:

- The nature of the relevant interests and relationships between the parties involved; and
- The nature of the service and its implication for relevant parties.

The nature of the services and the relevant interests and relationships may change during the course of the engagement. This is particularly true when a professional accountant is asked to conduct an engagement in a situation that may become adversarial, even though the parties who engage the professional accountant may not initially be involved in a dispute. The professional accountant shall remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

**Amended on 22 July 2013;  
effective 1 July 2014.**

220.7 For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a professional accountant in public practice to identify actual or potential conflicts of interest prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the professional accountant being able to apply safeguards, when necessary, to eliminate the threat to objectivity and any threat to compliance with other fundamental principles or reduce it to an acceptable level. The process to identify actual or potential conflicts of interest will depend on such factors as:

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

220.8 If the firm is a member of a network, conflict identification shall include any conflicts of interest that the professional accountant in public practice has

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reason to believe may exist or might arise due to interests and relationships of a network firm. Reasonable steps to identify such interests and relationships involving a network firm will depend on factors such as the nature of the professional services provided, the clients served by the network and the geographic locations of all relevant parties.

220.9 If a conflict of interest is identified, the professional accountant in public practice shall evaluate:

- The significance of relevant interests or relationships; and
- The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.

220.10 The professional accountant in public practice shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Examples of safeguards include:

- Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include:
  - Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
  - Creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm.
  - Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information.
- Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
- Consulting with third parties, such as a professional body, legal counsel or another professional accountant.

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- 220.11 In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in public practice performing the professional services.

Disclosure and consent may take different forms, for example:

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

The professional accountant shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the professional accountant shall exercise professional judgment in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

- 220.12 Where a professional accountant in public practice has requested explicit consent from a client and that consent has been refused by the client, the professional accountant shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards if necessary.

- 220.13 When disclosure is verbal, or consent is verbal or implied, the professional accountant in public practice is encouraged to document the nature of the

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circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.

220.14 In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:

- Performing a transaction-related service for a client in connection with a hostile takeover of another client of the firm.
- Performing a forensic investigation for a client in connection with a suspected fraudulent act where the firm has confidential information obtained through having performed a professional service for another client who might be involved in the fraud.

The firm shall not accept or continue an engagement under such circumstances unless the following conditions are met:

- The firm does not act in an advocacy role for one client where this requires the firm to assume an adversarial position against the other client with respect to the same matter;
- Specific mechanisms are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- The firm is satisfied that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant in public practice at the time, would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

The professional accountant shall document the nature of the circumstances, including the role that the professional accountant is to undertake, the specific mechanisms in place to prevent disclosure of information between the engagement teams serving the two clients and the rationale for the conclusion that it is appropriate to accept the engagement.

**Sections 220.7 – 220.14 were inserted on 22 July 2013;  
effective 1 July 2014.**

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### **Section 225 Responding to Non-Compliance with Laws and Regulations**

#### **225.1 – 225.4 Purpose**

- 225.1 A professional accountant in public practice may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. The purpose of this section is to set out the professional accountant's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the professional accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.
- 225.2 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.
- 225.3 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the professional accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.
- 225.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the fundamental principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of the non-compliance where it has not yet occurred; and



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- (c) To take such further action as appropriate in the public interest.

### **225.5 – 225.9 Scope**

- 225.5 This section sets out the approach to be taken by a professional accountant who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.
- 225.6 Examples of laws and regulations which this section addresses include those that deal with:
- Fraud, corruption and bribery.
  - Money laundering, terrorist financing and proceeds of crime.
  - Securities markets and trading.
  - Banking and other financial products and services.
  - Data protection.
  - Tax and pension liabilities and payments.
  - Environmental protection.
  - Public health and safety.
- 225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

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225.8 A professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

225.9 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) Non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. This includes, for example, circumstances where a professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.

The professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **225.10 Responsibilities of the Client's Management and Those Charged with Governance**

225.10 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

### **225.11 Responsibilities of Professional Accountants in Public Practice**

225.11 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the professional accountant takes to comply with this section shall be taken on a timely basis, having regard to the professional accountant's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

### **225.12 – 225.38 Audits of Financial Statements**

#### *Obtaining an Understanding of the Matter*

225.12 If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning an instance of non-

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compliance or suspected non-compliance, whether in the course of performing the engagement or through information provided by other parties, the professional accountant shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

- 225.13 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of knowledge of laws and regulations that is greater than that which is required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.
- 225.14 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.
- 225.15 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.
- 225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
  - The individuals actually or potentially involved.
  - The likelihood of collusion.
  - The potential consequences of the matter.
  - Whether that level of management is able to investigate the matter and take appropriate action.
- 225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the professional accountant shall discuss the matter with those charged with governance. The professional accountant may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.

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### *Addressing the Matter*

- 225.18 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:
- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
  - (b) Deter the commission of the non-compliance where it has not yet occurred; or
  - (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.
- 225.19 The professional accountant shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the noncompliance or suspected non-compliance. If not, the professional accountant may suggest appropriate sources of information or recommend that they obtain legal advice.
- 225.20 The professional accountant shall comply with applicable:
- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made; and
  - (b) Requirements under auditing standards, including those relating to:
    - Identifying and responding to non-compliance, including fraud.
    - Communicating with those charged with governance.
    - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

### *Communication with Respect to Groups*

- 225.21 A professional accountant may:
- (a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or
  - (b) Be engaged to perform an audit of a component's financial statements for purposes other than the group audit, for example, a statutory audit.

Where the professional accountant becomes aware of non-compliance or suspected noncompliance in relation to the component in either situation, the

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professional accountant shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation. This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in accordance with the provisions in this section.

225.22 Where the group engagement partner becomes aware of non-compliance or suspected noncompliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate inquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

### *Determining Whether Further Action Is Needed*

225.23 The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

225.24 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.

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- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

225.25 In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.

225.26 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the matter. The pervasiveness of the matter throughout the client.
- Whether the professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

225.27 Examples of circumstances that may cause the professional accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The professional accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The professional accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

225.28 In determining the need for, and nature and extent of, further action, 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 professional accountant has acted appropriately in the public interest.

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- 225.29 Further action by the professional accountant may include:
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
  - Withdrawing from the engagement and the professional relationship where permitted by law or regulation.
- 225.30 Where the professional accountant determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and withdrawal may be the only available course of action.
- 225.31 Where the professional accountant has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the professional accountant shall, on request by the proposed successor accountant, provide all such facts and other information concerning the identified or suspected non-compliance that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the audit appointment. The predecessor accountant shall do so despite paragraph 210.14, unless prohibited by law or regulation. If the proposed successor accountant is unable to communicate with the predecessor accountant, the proposed successor accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through inquiries of third parties or background investigations of management or those charged with governance.
- 225.32 As consideration of the matter may involve complex analysis and judgments, the professional accountant may consider consulting internally, obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

### *Determining Whether to Disclose the Matter to an Appropriate Authority*

- 225.33 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.
- 225.34 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be

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caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.
- The entity is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- Products that are harmful to public health or safety would likely be sold by the entity.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals.

225.35 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.

225.36 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with



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management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

### *Documentation*

225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant shall, in addition to complying with the documentation requirements under applicable auditing standards, document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the professional accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party perspective.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.25.

225.38 *International Standards on Auditing* (ISAs), for example, require a professional accountant performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

### **225.39 – 225.56 Professional Services Other than Audits of Financial Statements**

#### *Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance*

225.39 If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning

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an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may be about to occur.

- 225.40 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.
- 225.41 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, if the professional accountant has access to them and where appropriate, those charged with governance.
- 225.42 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.
- 225.43 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
  - The individuals actually or potentially involved.
  - The likelihood of collusion.
  - The potential consequences of the matter.
  - Whether that level of management is able to investigate the matter and take appropriate action.

### *Communicating the Matter to the Entity's External Auditor*

- 225.44 If the professional accountant is performing a non-audit service for an audit client of the firm, or a component of an audit client of the firm, the professional accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's

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protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.

- 225.45 If the professional accountant is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.
- 225.46 If the professional accountant is performing a non-audit service for a client that is not:
- (a) An audit client of the firm or a network firm; or
  - (b) A component of an audit client of the firm or a network firm,
- the professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.
- 225.47 Factors relevant to considering the communication in accordance with paragraphs 225.45 and 225.46 include:
- Whether doing so would be contrary to law or regulation.
  - Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
  - Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
  - Whether management or those charged with governance have already informed the entity's external auditor about the matter.
  - The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.
- 225.48 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.

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### *Considering Whether Further Action Is Needed*

- 225.49 The professional accountant shall also consider whether further action is needed in the public interest.
- 225.50 Whether further action is needed, and the nature and extent of it, will depend on factors such as:
- The legal and regulatory framework.
  - The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
  - The urgency of the matter.
  - The involvement of management or those charged with governance in the matter.
  - The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.
- 225.51 Further action by the professional accountant may include:
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
  - Withdrawing from the engagement and the professional relationship where permitted by law or regulation.
- 225.52 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:
- Whether doing so would be contrary to law or regulation.
  - Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected noncompliance.
  - Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- 225.53 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.

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- 225.54 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.
- 225.55 The professional accountant may consider consulting internally, obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

### *Documentation*

- 225.56 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant is encouraged to document:
- The matter.
  - The results of discussion with management and, where applicable, those charged with governance and other parties.
  - How management and, where applicable, those charged with governance have responded to the matter.
  - The courses of action the professional accountant considered, the judgments made and the decisions that were taken.
  - How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.49.

**Section 225 was inserted on 4 January 2017;  
effective 15 July 2017**

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### **Section 230 Second Opinions**

#### **230.1 – 230.3 Second Opinions**

- 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 give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The 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.
- 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.
- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 240 Fees and Other Types of Remuneration**

#### **240.1 – 240.2A Fees**

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:

- (a) 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.
- (b) Making the client aware of the statutory duties and responsibilities involved, if any, in respect of the engagement.
- (c) Assigning appropriate time and qualified staff to the task.

240.2A *Fees charged for all engagements should be a fair reflection of the value of the work involved and should take into account, among others:*

- (a) *the skill and knowledge required for the type of work involved;*
- (b) *the level of training and experience of the persons necessarily engaged on the work;*
- (c) *the time necessarily occupied by each person engaged on the work; and*
- (d) *the degree of responsibility and urgency that the work entails.*

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effective 1 August 2016.**

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### **240.3 – 240.4 Contingent Fees**

240.3 Contingent fees are widely used for certain types of non-assurance engagements<sup>4</sup>. 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:

- (a) The nature of the engagement.
- (b) The range of possible fee amounts.
- (c) The basis for determining the fee.
- (d) Whether the outcome or result of the transaction is to be reviewed by an independent third party.

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

- (a) An advance written agreement with the client as to the basis of remuneration.
- (b) Disclosure to intended users of the work performed by the professional accountant in public practice and the basis of remuneration.
- (c) Quality control policies and procedures.
- (d) Review by an objective third party of the work performed by the professional accountant in public practice.

### **240.5 – 240.8 Referral Fees or 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 threats to objectivity and professional competence and due care.

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<sup>4</sup> Contingent fees for non-assurance services provided to audit clients and other assurance clients are discussed in Section 290 and Section 291 of Part I of the By-Laws.



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- 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.

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effective 1 August 2016.**

- 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:
- (a) Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred.
  - (b) Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice.
  - (c) 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.
- 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 paragraph 240.5 – 240.7 above.

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### **Section 250    Marketing Public Practice Services**

#### **250.1 – 250.3 Advertising or Marketing Services**

- 250.1    When a professional accountant in public practice solicits new work through advertising or other forms of marketing, there may be threats 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 advertising or marketing public practice 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;
  - (b)    Make disparaging references to unsubstantiated comparisons to the work of another.
- 250.3    If the professional accountant in public practice is in doubt whether a proposed form of advertising or marketing is appropriate, the professional accountant in public practice shall consider consulting with the Institute.

**Amended on 26 May 2016;  
effective 1 August 2016.**

**Sections 250.4 and 250.5 under the header “Tenders” were removed on 26 May 2016;  
effective 1 August 2016.**

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### **Section 260    Gifts and Hospitality**

#### **260.1 – 260.3 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, 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.

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### **Section 270 Custody of Client Assets**

#### **270.1 – 270.3 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 behavior and may be a self interest threat to objectivity arising from holding client assets. A professional accountant in public practice entrusted with client 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.

Please refer to Appendix III for additional guidance on client monies.

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 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 shall comply with the provisions of section 225.

**Amended on 4 January 2017;  
effective 15 July 2017.**

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 280    Objectivity—All Services**

#### **280.1 – 280.4 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. Section 290 and 291 provide specific guidance on independence requirements for professional accountants in public practice when performing assurance engagement.
- 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:
- (a)    Withdrawing from the engagement team.
  - (b)    Supervisory procedures.
  - (c)    Terminating the financial or business relationship giving rise to the threat.
  - (d)    Discussing the issue with higher levels of management within the firm.
  - (e)    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.

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### **Section 290 Independence—Audit and Review Engagement**

#### **290.1 – 290.3 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):

- (a) “Audit,” “audit team,” “audit engagement,” “audit client” and “audit report” includes review, review team, review engagement, review client and review report; and
- (b) “Firm” includes network firm, except where otherwise stated.

#### **290.4 – 290.12 A Conceptual Framework Approach to Independence**

290.4 In the case of audit engagements, it is in the public interest and, therefore, required by the Institute pursuant to these By-Laws, that members of audit teams, firms and network firms shall be independent of audit clients.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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*

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

(b) *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism 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.

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 By-Laws 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 By-Laws. 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.

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- 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.
- 290.11 Throughout this section, reference is made to the significance of threats to independent. 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 organization 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.

### **290.13 – 290.24 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 By-Laws). 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.



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- 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 cooperation 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.
- 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.

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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 a 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:
- (a) Common systems that enable firms to exchange information such as client data, billing and time records;
  - (b) Partners and staff;
  - (c) Technical departments to consult on technical or industry specific issues, transactions or events for assurance engagements;
  - (d) Audit methodology or audit manuals; and
  - (e) Training courses and facilities.
- 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 endeavor. 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

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firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

### **290.25 – 290.26 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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

- (a) 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;
- (b) Size; and
- (c) Number of employees.

### **290.27 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 include that related entity

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when identifying and evaluating threats to independence and applying appropriate safeguards.

### **290.28 Those Charged with Governance**

290.28 Even when not required by the By-Laws, 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.

In complying with requirements in this section to communicate with those charged with governance, the firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

**Amended on 29 May 2014;  
effective 1 July 2014.**

### **290.29 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 or 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:

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- (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.

### **290.30 – 290.32 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.
- 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:
- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements, but before accepting the audit engagement; or
  - (b) Previous services provided to the audit client.
- 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 the threat is not at an acceptable level, the audit engagement shall only be accepted if safeguards are applied to eliminate any threat or reduce them to an acceptable level. Example of such safeguards include:
- (a) Not including personnel who provided the non-assurance service as members of the audit team;
  - (b) Having a professional accountant review the audit and non-assurance work as appropriate;

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- (c) 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.

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### **290.33 – 290.38 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.

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 By-Laws. 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:

- (a) The nature and significance of the interest or relationship;
- (b) The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and
- (c) 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

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- (c) appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance. Examples of transitional measures include:
  - (i) Having a professional accountant review the audit or non-assurance work as appropriate;
  - (ii) 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
  - (iii) 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 it:

- (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.



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### **290.39 – 290.49 Breach of a Provision of this Section**

*(The heading for section 290.39 – 290.49 was amended on 22 July 2013; effective 1 April 2014)*

- 290.39 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of a breach may be that termination of the audit engagement is necessary.

**Amended on 22 July 2013;  
effective 1 April 2014.**

- 290.40 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

- 290.41 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a member body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 290.42 When a breach is identified, the firm shall, in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for the policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an audit report. The significance of the breach will depend on factors such as:

- The nature and duration of the breach;
- The number and nature of any previous breaches with respect to the current audit engagement;
- Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the audit team or another individual for whom there are independence requirements;
- If the breach relates to a member of the audit team, the role of that individual;

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- If the breach was caused by the provision of a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

290.43 Depending upon the significance of the breach, it may be necessary to terminate the audit engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit report.

290.44 Examples of actions that the firm may consider include:

- Removing the relevant individual from the audit team;
- Conducting an additional review of the affected audit work or re-performing that work to the extent necessary, in either case using different personnel;
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and
- Where the breach relates to a non-assurance service that affects the accounting records or an amount that is recorded in the financial statements, 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.

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

**Amended on 26 May 2016;  
effective 1 August 2016.**

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290.46 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for reporting less significant breaches. The matters to be discussed shall include:

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

290.47 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph 290.46 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

**Amended on 26 May 2016;  
effective 1 August 2016.**

290.48 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period. The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports, and discuss the matter with those charged with governance.

290.49 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any

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discussions with a member body, relevant regulator or oversight authority. When the firm continues with the audit engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an audit report.

**Sections 290.40 – 290.49 were inserted on 22 July 2013;  
effective 1 April 2014.**

**Sections 290.50 to 290.99 are intentionally kept blank.**

### **290.100 – 290.101 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.

### **290.102 – 290.116 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

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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 By-Laws 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 By-Laws 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:

- (a) The nature of the relationship between the member of the audit team and the close family member; and
- (b) 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:

- (i) 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;
- (ii) Having a professional accountant review the work of the member of the audit team; or
- (iii) 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.

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- 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,

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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) 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:

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

(b) 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:

- (i) Removing the member of the audit team with the financial interest from the audit team; or
- (ii) 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 (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;

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- (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
- (a) 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:
    - (i) Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and
    - (ii) Individuals with a close personal relationship with a member of the audit team.
  - (b) Whether these interests create self-interest threat will depend on factors such as:
    - (i) The firm's organizational, operating and reporting structure; and
    - (ii) The nature of the relationship between the individual and the member of the audit team.
  - (c) 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:
    - (i) Removing the member of the audit team with the personal relationship from the audit team;
    - (ii) Excluding the member of the audit team from any significant decision- making concerning the audit engagement; or
    - (iii) 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



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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.

**Section 290.117 was removed on 22 July 2013;  
effective 1 April 2014.**

### **290.118 – 290.123 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

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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.

### **290.124 – 290.126 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:

- (a) 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.
- (b) 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.
- (c) 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.

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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.
- 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:
- (a) Eliminating or reducing the magnitude of the transaction; or
  - (b) Removing the individual from the audit team.

### **290.127 – 290.132 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.

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- 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 (a) 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:
- (i) The position held by the immediate family member; and
  - (ii) The role of the professional on the audit team.
- (b) 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:
- (i) Removing the individual from the audit team; or
  - (ii) 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 (a) Threats to independence are created when a close family member of a member of the audit team is:
- (i) A director or officer of the audit client; or
  - (ii) 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.
- (b) The significance of the threats will depend on factors such as:
- (i) The nature of the relationship between the member of the audit team and the close family member;
  - (ii) The position held by the close family member; and
  - (iii) The role of the professional on the audit team.

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- (c) 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:
- (i) Removing the individual from the audit team; or
  - (ii) 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 (a) 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:
- (i) The nature of the relationship between the individual and the member of the audit team;
  - (ii) The position the individual holds with the client; and
  - (iii) The role of the professional on the audit team.
- (b) 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:
- (i) Removing the professional from the audit team; or
  - (ii) 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 (a) 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:
- (i) The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;
  - (ii) The interaction of the partner or employee of the firm with the audit team;

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- (iii) The position of the partner or employee within the firm; and
- (iv) The position the individual holds with the client.
- (b) 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:
  - (i) Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement; or
  - (ii) Having a professional accountant review the relevant audit work performed.

**Section 290.133 was removed on 22 July 2013;  
effective 1 April 2014**

### **290.134 – 290.141 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 (a) 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:
- (i) The position the individual has taken at the client;

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- (ii) Any involvement the individual will have with the audit team;
  - (iii) The length of time since the individual was a member of the audit team or partner of the firm; and
  - (iv) 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.
- (b) 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:
  - (i) Modifying the audit plan;
  - (ii) Assigning individuals to the audit team who have sufficient experience in relation to the individual who has joined the client; or
  - (iii) 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:

- (a) Removing the individual from the audit team; or
- (b) 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

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- (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 **two** years 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 **two** years 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.

### **290.142 Temporary Staff Assignments**

290.142 (a) 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:

- (i) Providing non-assurance services that would not be permitted under this section; or
- (ii) Assuming management responsibilities.

In all circumstances, the audit client shall be responsible for directing and supervising the activities of the loaned staff.



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- (b) 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:
- (i) Conducting an additional review of the work performed by the loaned staff;
  - (ii) Not giving the loaned staff audit responsibility for any function or activity that the staff performed during the temporary staff assignment; or
  - (iii) Not including the loaned staff as a member of the audit team.

**Section 290.142A was removed on 26 May 2016;  
effective 1 August 2016.**

### **290.143 – 290.145 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:
- (a) The position the individual held with the client;
  - (b) The length of time since the individual left the client; and
  - (c) The role of the professional on the audit team.

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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.

### **290.146 – 290.149A 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 safeguard could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an audit client.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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290.149A Company Secretary is defined as an officer of a company under Section 2 of the Companies Act 2016. Pursuant to Section 264 of the Companies Act 2016, an individual shall not act as an approved company auditor if he or she is also an officer of a company.

**Amended on 22 March 2018;  
effective 1 April 2018.**

### **290.150 – 290.155 Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client**

#### *General Provisions*

- 290.150 (a) 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:
- (i) How long the individual has been a member of the audit team;
  - (ii) The role of the individual on the audit team;
  - (iii) The structure of the firm;
  - (iv) The nature of the audit engagement;
  - (v) Whether the client's management team has changed; and
  - (vi) Whether the nature or complexity of the client's accounting and reporting issues has changed.
- (b) 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:
- (i) Rotating the senior personnel off the audit team;
  - (ii) Having a professional accountant who was not a member of the audit team review the work of the senior personnel; or
  - (iii) 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 **five** 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

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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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 290.153 (a) 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:
- (i) How long any such partner has been associated with the audit client;
  - (ii) The role, if any, of the individual on the audit team; and
  - (iii) The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.
- (b) 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:
- (i) Rotating the partner off the audit team or otherwise ending the partner's association with the audit client; or
  - (ii) 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 **three (3)** 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 **five (5)** years less the number of years already served. If the individual has served the audit client as a key audit partner for **four (4)** or more years when the client becomes a public interest

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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 **five** 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.

**Sections 290.150 – 290.155 are replaced by inserting Sections 290.515 – 290.535; effective 15 December 2018.**

### **290.156 – 290.161 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.

**Section 290.159 was removed on 22 July 2013;  
effective 1 April 2014**

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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.

### **290.162 – 290.165 Management Responsibilities**

290.162 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, 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:

- (a) Setting policies and strategic direction;
- (b) Directing and taking responsibility for the actions of the entity's employees;
- (c) Authorizing transactions;
- (d) Deciding which recommendations of the firm or other third parties to implement;

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- (e) Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework;
- (f) Taking responsibility for designing, implementing and maintaining internal control.

**Amended on 26 May 2016;  
effective 1 August 2016.**

290.164 A firm shall not 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. Subject to compliance with paragraph 290.165, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.165 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- (b) Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

**Sections 290.162 – 290.165 were amended on 21 October 2015;  
effective for audits of financial statements for periods commencing on or after  
15 April 2016.**

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### **290.166 Administrative Services**

290.166 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include word processing services, preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, monitoring statutory filing dates, and advising an audit client of those dates. Providing such services does not generally create a threat to independence. However, 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.

**Amended on 21 October 2015;  
effective for audits of financial statements for periods commencing on or after  
15 April 2016.**

### **290.167 – 290.174 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:

- (a) Determining accounting policies and the accounting treatment within those policies.
- (b) 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).
- (c) Originating or changing journal entries, or determining or approving the account classifications of transactions.

**Amended on 21 October 2015;  
effective for audits of financial statements for periods commencing on or after  
15 April 2016.**

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 (a) the application of



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accounting standards or policies and financial statement disclosure requirements, (b) the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities, or (c) 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 so long as the client is responsible for making decisions in the preparation of the accounting records and financial statements.

**Amended on 21 October 2015;  
effective for audits of financial statements for periods commencing on or after  
15 April 2016.**

- 290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing 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 (a) 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:
- (i) Providing payroll services based on client-originated data;
  - (ii) Recording transactions for which the client has determined or approved the appropriate account classification;
  - (iii) Posting transactions coded by the client to the general ledger;
  - (iv) Posting client-approved entries to the trial balance; and
  - (v) Preparing financial statements based on information in the trial balance.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- (b) 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:

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- (i) Arranging for such services to be performed by an individual who is not a member of the audit team; or
- (ii) 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.

**Amended on 21 October 2015;  
effective for audits of financial statements for periods commencing on or after  
15 April 2016.**

Audit Clients that are Public Interest Entities

290.172 The provision of accounting and bookkeeping services, including payroll services and the preparation of financial statements or financial information which forms the basis on which the audit report is provided, on behalf of a financial statement audit client that is a public interest entity, impairs the independence of the firm, or at least give the appearance of impairing independence. Accordingly, no safeguard other than the prohibition of such services, could reduce the threat created to an acceptable level. Therefore, a firm shall not, provide such services to a public interest entity that is an audit client.

290.173 [This section is intentionally left blank]

290.174 [This section is intentionally left blank]

### **290.175 – 290.180 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 (a) 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:
- (i) Whether the valuation will have a material effect on the financial statements.

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- (ii) The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
  - (iii) The availability of established methodologies and professional guidelines.
  - (iv) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
  - (v) The reliability and extent of the underlying data.
  - (vi) The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
  - (vii) The extent and clarity of the disclosures in the financial statements.
- (b) 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:
- (i) Having a professional who was not involved in providing the valuation service review the audit or valuation work performed; or
  - (ii) 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.

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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.

### **290.181 – 290.194 Taxation Services**

290.181 Taxation services comprise a broad range of services, including:

- (a) Tax return preparation;
- (b) Tax calculations for the purpose of preparing the accounting entries;
- (c) Tax planning and other tax advisory services; and
- (d) 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 standardized 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.

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### **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 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:

- (a) Using professionals who are not members of the audit team to perform the service;
- (b) 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
- (c) Obtaining advice on the service from an external tax professional.

#### **Audit Clients that are Public Interest Entities**

290.185 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 [This section is intentionally left blank]

### **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:

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- (a) The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- (b) The extent to which the outcome of the tax advice will have a material effect on the financial statements;
- (c) 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;
- (d) The level of tax expertise of the client's employees;
- (e) The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- (f) 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:

- (a) Using professionals who are not members of the audit team to perform the service;
- (b) 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;
- (c) Obtaining advice on the service from an external tax professional; or
- (d) 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.

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.

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- 290.191 (a) 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:
- (i) 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.
  - (ii) The reliability and extent of the underlying data.
- (b) 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:
- (i) Using professionals who are not members of the audit team to perform the service;
  - (ii) Having a professional review the audit work or the result of the tax service; or
  - (iii) 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:
- (a) Whether the firm has provided the advice which is the subject of the tax dispute;
  - (b) 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;
  - (c) The extent to which the matter is supported by tax law or regulation, other precedent, or established practice;
  - (d) Whether the proceedings are conducted in public; and

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- (e) 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:

- (a) Using professionals who are not members of the audit team to perform the service;
- (b) 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
- (c) 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 analyzing the tax issues) for the audit client in relation to the matter that is being heard before a public tribunal or court.

### **290.195 – 290.200 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;



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- (c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
  - (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;

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- (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:

- (a) The materiality of the related financial statement amounts;
- (b) The risk of misstatement of the assertions related to those financial statement amounts; and
- (c) 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 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

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- (c) Amounts or disclosures that are, separately or in the aggregates, material to the financial statements on which the firm will express an opinion.

**Amended on 26 May 2016;  
effective 1 August 2016.**

**Section 290.200A was removed on 26 May 2016;  
effective 1 August 2016.**

### ***290.201 – 290.06 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 customization 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.

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### **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;
  - (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.

**Section 290.206A was removed on 26 May 2016;  
effective 1 August 2016.**

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### **290.207 – 290.208 *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.

### **290.209 – 290.213A *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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 290.210 Legal services that support an audit client in executing a transaction (for example, contract support, legal advice, legal due diligence and restructuring) may create 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:

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- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

### *Provision of Dispute Resolution Services to an Audit Client*

- 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:
- (a) Using professionals who are not members of the audit team to perform the service; or
  - (b) 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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290.213A *Notwithstanding paragraphs 290.209, 290.210 and 290.213, the professional accountants are required to observe the relevant laws and regulations as provided in the Legal Profession Act 1976, Advocate Ordinance Sabah 1953 and Advocate Ordinance Sarawak 1953 in relation to provision of legal services in Malaysia.*

**Section 290.213A was inserted on 26 May 2016;  
effective 1 August 2016.**

### **290.214 – 290.215 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:

- (a) The nature of the requested assistance; and
- (b) 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:

- (a) Searching for or seeking out candidates for such positions; and
- (b) Undertaking reference checks of prospective candidates for such positions.

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### **290.216 – 290.219 Corporate Finance Services**

- 290.216 (a) Providing corporate finance services such as (a) assisting an audit client in developing corporate strategies, (b) identifying possible targets for the audit client to acquire, (c) advising on disposal transactions, (d) assisting finance raising transactions, and (e) 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 threat or reduce it to an acceptable level. Examples of such safeguards include:
- (i) Using professionals who are not members of the audit team to provide the services; or
  - (ii) 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 (a) 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:
- (i) The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements;
  - (ii) 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
  - (iii) 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.
- (b) 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:
- (i) Using professionals who are not members of the audit team to perform the service; or
  - (ii) Having a professional who was not involved in providing the corporate finance service to the client advise the audit team on the



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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.

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.

### **290.220 Fees**

#### **290.220 – 290.222 Fees—Relative Size**

290.220 (a) 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:

- (i) The operating structure of the firm;
- (ii) Whether the firm is well established or new; and
- (iii) The significance of the client qualitatively and/or quantitatively to the firm.

(b) 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:

- (i) Reducing the dependency on the client;
- (ii) External quality control reviews; or

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- (iii) Consulting a third party, such as a professional regulatory body or a professional accountant, on key audit judgments.

- 290.221 (a) 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:
- (i) The significance of the client qualitatively and/or quantitatively to the partner or office; and
  - (ii) The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.
- (b) 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:
- (i) Reducing the dependency on the audit client;
  - (ii) Having a professional accountant review the work or otherwise advise as necessary; or
  - (iii) 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

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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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

**Section 290.222A was removed on 26 May 2016;  
effective 1 August 2016.**

### **290.223 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 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 provided 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.

### **290.224 – 290.227 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

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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 (a) 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:

- (i) The range of possible fee amounts;
- (ii) Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined;
- (iii) The nature of the service; and
- (iv) The effect of the event or transaction on the financial statements.

(b) 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:

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

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### **290.228 – 290.229 Compensation and Evaluation Policies**

- 290.228 (a) 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:
- (i) The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;
  - (ii) The role of the individual on the audit team; and
  - (iii) Whether promotion decisions are influenced by the sale of such services.
- (b) 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:
- (i) Removing such members from the audit team; or
  - (ii) 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.

### **290.230 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 safeguard 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.

### **290.231 Actual or Threatened Litigation**

- 290.231 (a) 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

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management and the members of the audit team must be characterized by complete candor 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:

- (i) The materiality of the litigation; and
  - (ii) Whether the litigation relates to a prior audit engagement.
- (b) 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:
- (i) If the litigation involves a member of the audit team, removing that individual from the audit team; or
  - (ii) 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.

**Sections 290.232 to 290.499 are intentionally kept blank.**

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### **290.500 – 290.514 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 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).

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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 290.231 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.

### *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.



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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.

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### *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 290.231 shall be complied with, subject to paragraphs 290.504 to 290.507.

### **290.515 – 290.535 Long Association of Personnel (Including Partner Rotation) with an Audit Client**

#### *General Provisions*

290.515 Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved in an audit engagement over a long period of time.

Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the audit team with:

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgment.

290.516 The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the audit client.

(a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been a member of the engagement team, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other members of the engagement team.

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- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) Factors relating to the audit client include:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual may have with senior management or those charged with governance.

290.517 The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management and the start of a new relationship.

290.518 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:

- Rotating the individual off the audit team.
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having a professional accountant who was not a member of the audit team review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

290.519 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the audit engagement or exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.520 to 290.535 also apply.

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### *Audits of Public Interest Entities*

290.520 In respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- a) The engagement partner;
- b) The individual appointed as responsible for the engagement quality control review; or
- c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs 290.522 – 290.530.

290.521 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.522 to 290.524 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph 290.525.

### *Cooling-off Period*

290.522 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

The MIA has approved the application of the transitional provision in paragraph 290.530. In view of this, if an individual acts as an engagement partner for seven cumulative years, the cooling-off period shall be three consecutive years to substitute the five consecutive years as specified in paragraphs 290.522, 290.525 and 290.527(a) for audits of financial statements for periods beginning prior to December 15, 2023.

290.523 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

290.524 If the individual has acted in any other capacity as a key audit partner for seven cumulative years, the cooling-off period shall be two consecutive years.

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### Service in a combination of key audit partner roles

- 290.525 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.
- 290.526 If the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph 290.527(a), be three consecutive years.
- 290.527 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:
- a) Five consecutive years where the individual has been the engagement partner for three or more years; or
  - b) Three consecutive years in the case of any other combination.
- 290.528 If the individual acted in any other combination of key audit partner roles, the cooling-off period shall be two consecutive years.

### Service at a Prior Firm

- 290.529 In determining the number of years that an individual has been a key audit partner under paragraphs 290.520 to 290.521, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

### Position where Shorter Cooling-off Period is Established by Law or Regulation

- 290.530 Where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs 290.522, 290.525 and 290.527(a) provided that the applicable time-on period does not exceed seven years.

### Restrictions on Activities During the Cooling-off Period

- 290.531 For the duration of the relevant cooling-off period, the individual shall not:
- a) Be a member of the engagement team or provide quality control for the audit engagement;

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- b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- c) Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client; or
- d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) Exerting direct influence on the outcome of the audit engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

### **Other Matters**

290.532 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit engagement prior to an individual becoming a key audit partner.

290.533 Despite paragraphs 290.520 – 290.528, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner 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 in that role 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. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

290.534 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 a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the

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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 audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

290.535 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 other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

**Sections 290.515 – 290.535 were inserted on 25 October 2018.**

**Subject to the transitional provision below, Sections 290.515 – 290.535 are effective for audits of financial statements for periods beginning on or after 15 December 2018.**

Section 290.530 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

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### **Section 291 Independence—Other Assurance Engagements**

#### **291.1 – 291.3 Structure of Section**

- 291.1 This section addresses independence requirements for assurance engagements that are not audit or review engagements. 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.
- 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 By-Laws, 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.

#### **291.4 – 291.11 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.



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291.5 Independence comprises:

### *Independence of Mind*

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

### *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 skepticism 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.

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 By-Laws 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 By-Laws. 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.

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- 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 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.

### **291.12 – 291.16 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 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)

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results from applying a framework for evaluating the effectiveness of internal control, such as COSO<sup>5</sup> or CoCo<sup>6</sup> (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.

### **291.17 – 291.19 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 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 matter.

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<sup>5</sup> "Internal Control – Integrated Framework" The Committee of Sponsoring Organizations of the Treadway Commission.

<sup>6</sup> "Guidance on Assessing Control – The CoCo Principles" Criteria of Control Board, The Canadian Institute of Chartered Accountants.

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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.

### **291.20 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.

### **291.21 – 291.27 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.

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- 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 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.

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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.

### **291.28 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:

- (a) The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- (b) 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.

### **291.29 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

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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.

### **291.30 – 291.32 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 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 (a) 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:

- (i) Not including personnel who provided the non-assurance service as members of the assurance team;
- (ii) Having a professional accountant review the assurance and non-assurance work as appropriate; or
- (iii) Engaging another firm to evaluate the results of the of the non-assurance service or having another firm re-perform the non-

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assurance service to the extent necessary to enable it to take responsibility for the service.

- (b) 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:
  - (i) The non-assurance service will be completed within a short period of time; or
  - (ii) 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.

### **291.33 – 291.37 Breach of a Provision of this Section**

*(The heading for section 291.33 – 291.37 was amended on 22 July 2013; effective 1 April 2014)*

- 291.33 When a breach of a provision of this section is identified, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The firm shall determine whether action can be taken that satisfactorily addresses the consequences of the breach. In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the firm's objectivity would be compromised such that the firm is unable to issue an assurance report.

**Amended on 22 July 2013;  
effective 1 April 2014.**

- 291.34 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate, and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.
- 291.35 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those



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charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

- 291.36 If the party that engaged the firm or those charged with governance, as appropriate, do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.
- 291.37 The firm shall document the breach, the actions taken, key decisions made and all the matters discussed with the party that engaged the firm or those charged with governance. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.

**Sections 291.34 – 291.37 were inserted on 22 July 2013;  
effective 1 April 2014.**

**Sections 291.38 to 291.99 are intentionally left blank.**

### **291.100 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

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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.

### **291.104 – 291.112 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, (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 By-Laws 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 By-Laws 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.

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- 291.107 (a) 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:
- (i) The nature of the relationship between the member of the assurance team and the close family member; and
  - (ii) The materiality of the financial interest to the close family member.
- (b) 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:
- (i) 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;
  - (ii) Having a professional accountant review the work of the member of the assurance team; or
  - (iii) 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 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 is 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.

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- 291.110 (a) 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:
- (i) Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and
  - (ii) Individuals with a close personal relationship with a member of the assurance team.
- (b) Whether these interests create a self-interest threat will depend on factors such as:
- (i) The firm's organizational, operating and reporting structure; and
  - (ii) The nature of the relationship between the individual and the member of the assurance team.
- (c) 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:
- (i) Removing the member of the assurance team with the personal relationship from the assurance team;
  - (ii) Excluding the member of the assurance team from any significant decision making concerning the assurance engagement; or
  - (iii) 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.

**Section 291.112 was removed on 22 July 2013;  
effective 1 April 2014.**

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### **291.113 – 291.118 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 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

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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.

### **291.119 – 291.120 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:

- (a) Having a financial interest in a joint venture with the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- (b) 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.
- (c) 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

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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:

- (a) Eliminating or reducing the magnitude of the transaction; or
- (b) Removing the individual from the assurance team.

### **291.121 – 291.126 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 (a) 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:

- (i) The position held by the immediate family member; and
  - (ii) The role of the professional on the assurance team.
- (b) 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:
- (i) Removing the individual from the assurance team; or

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- (ii) 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 (a) Threats to independence are created when a close family member of a member of the assurance team is:
  - (i) A director or officer of the assurance client; or
  - (ii) An employee in a position to exert significant influence over the subject matter information of the assurance engagement.
- (b) The significance of the threats will depend on factors such as:
  - (i) The nature of the relationship between the member of the assurance team and the close family member;
  - (ii) The position held by the close family member; and
  - (iii) The role of the professional on the assurance team.
- (c) 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:
  - (i) Removing the individual from the assurance team; or
  - (ii) 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 (a) 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:
  - (i) The nature of the relationship between the individual and the member of the assurance team;
  - (ii) The position the individual holds with the client; and
  - (iii) The role of the professional on the assurance team.
- (b) 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:
  - (i) Removing the professional from the assurance team; or
  - (ii) Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the



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responsibility of the individual with whom the professional has a close relationship.

- 291.126 (a) 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:
- (i) The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;
  - (ii) The interaction of the partner or employee of the firm with the assurance team;
  - (iii) The position of the partner or employee within the firm; and
  - (iv) The role of the individual within the client.
- (b) 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:
- (i) Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement; or
  - (ii) Having a professional accountant review the relevant assurance work performed.

**Section 291.127 was removed on 22 July 2013;  
effective 1 April 2014**

### **291.128 – 291.131 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 (a) 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:
- (i) The position the individual has taken at the client;

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- (ii) Any involvement the individual will have with the assurance team;
    - (iii) The length of time since the individual was a member of the assurance team or partner of the firm; and
    - (iv) 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.
  - (b) In all cases the individual shall not continue to participate in the firm's business or professional activities.
  - (c) 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:
    - (i) 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.
    - (ii) Making arrangements such that any amount owed to the individual is not material to the firm;
    - (iii) Modifying the plan for the assurance engagement;
    - (iv) Assigning individuals to the assurance team who have sufficient experience in relation to the individual who has joined the client; or
    - (v) 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:
- (a) Removing the individual from the assurance team; or
  - (b) A review of any significant judgments made by that individual while on the team.

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### **291.132 – 291.134 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 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:

- (a) The position the individual held with the client;
- (b) The length of time since the individual left the client; and
- (c) 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.

### **291.135 – 291.138 Serving as a Director or Officer of an Assurance Client**

291.135 If a partner or employee of the firm serves as a director or officer of an assurance client, the self-review and self-interest threats would be so significant that no safeguard could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an audit client.

**Amended on 26 May 2016;  
effective 1 August 2016.**

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- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 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 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

- 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.

**Amended on 26 May 2016;  
effective 1 August 2016.**

### **291.139 Long Association of Senior Personnel with Assurance Clients**

- 291.139 (a) 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:
- (i) How long the individual has been a member of the assurance team;
  - (ii) The role of the individual on the assurance team;
  - (iii) The structure of the firm;
  - (iv) The nature of the assurance engagement;
  - (v) Whether the client's management team has changed; and

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- (vi) Whether the nature or complexity of the subject matter information has changed.
- (b) 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:
  - (i) Rotating the senior personnel off the assurance team;
  - (ii) Having a professional accountant who was not a member of the assurance team review the work of the senior personnel; or
  - (iii) Regular independent internal or external quality reviews of the engagement.

**Section 291.139 is replaced by inserting Sections 291.160 – 291.164; effective 15 December 2018.**

### **291.140 – 291.142 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.
- 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.

### **291.143 – 291.146 Management Responsibilities**

- 291.143 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

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- 291.144 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:
- (i) Setting policies and strategic direction.
  - (ii) Hiring or dismissing employees.
  - (iii) Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
  - (iv) Authorizing transactions.
  - (v) Control or management of bank accounts or investment.
  - (vi) Deciding which recommendations of the firm or other third parties to implement.
  - (vii) Reporting to those charged with governance on behalf of management.
  - (viii) Taking responsibility for designing, implementing, monitoring or maintaining internal controls.
- 291.145 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 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, the firm shall ensure that the responsibility is not related to the subject matter or subject matter information of an assurance engagement provided by the firm.
- 291.146 When providing services that are related to the subject matter or subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that client management makes all judgments and decisions relating to the subject matter or subject matter information of the assurance engagement that are the responsibility of management. This includes ensuring the client's management:
- a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
  - b) Provides oversight of the services and, evaluates the adequacy of the results of the services performed for the client's purpose; and
  - c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

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**Sections 291.143 – 290.146 were amended on 21 October 2015;  
effective on 15 April 2016 immediately.**

**Section 291.147 is intentionally kept blank.**

### **291.148 – 291.150 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.

### **291.151 Fees**

#### **291.151 – 291.152 Fees—Relative Size**

291.151 (a) 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:

(i) The operating structure of the firm;

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- (ii) Whether the firm is well established or new; and
  - (iii) The significance of the client qualitatively and/or quantitatively to the firm.
- (b) 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:
  - (i) Reducing the dependency on the client;
  - (ii) External quality control reviews; or
  - (iii) 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 advises as necessary.

### **291.153 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 not take part in the assurance engagement provided 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.

### **291.154 – 291.157 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.



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- 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 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 (a) 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:
- (i) The range of possible fee amounts;
  - (ii) Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined;
  - (iii) The nature of the service; and
  - (iv) The effect of the event or transaction on the subject matter information.
- (b) 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:
- (i) Having a professional accountant review the relevant assurance work or otherwise advise as necessary; or
  - (ii) Using professionals who are not members of the assurance team to perform the non-assurance service.

### **291.158 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.

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### **291.159 Actual or Threatened Litigation**

- 291.159 (a) 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 characterized by complete candor 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:
- (i) The materiality of the litigation; and
  - (ii) Whether the litigation relates to a prior assurance engagement.
- (b) 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:
- (i) If the litigation involves a member of the assurance team, removing that individual from the assurance team; or
  - (ii) 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.

### **291.160 – 291.164 Long Association of Personnel with an Assurance Client**

- 291.160 Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved on an assurance engagement of a recurring nature over a long period of time.

A familiarity threat may be created as a result of an individual's long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close

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personal relationship with the assurance client or a member of senior management and which may inappropriately influence the individual's judgment.

291.161 The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the assurance engagement.
- How long the individual has been a member of the assurance team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

291.162 The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.

291.163 The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards in relation to a specific engagement include:

- Rotating the individual off the assurance team.
- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having a professional accountant who is not a member of the assurance team review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

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- 291.164 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the assurance engagement or exert direct influence on the outcome of the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be eliminated or reduced to an acceptable level.

**Sections 291.160 – 291.164 were inserted on 25 October 2018;  
effective as of 15 December 2018.**

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**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.

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.

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### **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.

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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:

	<b>Proven oil reserves thousands of barrels</b>
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
<b>Total</b>	<b>104,301</b>

The engagements 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.

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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 the 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 291.17). There are several parties responsible for 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.*



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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 the 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 are required to be independent of those responsible parties which 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.

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### **PART C: PROFESSIONAL ACCOUNTANTS IN BUSINESS**

Section 300	Introduction
Section 310	Conflicts of Interest
Section 320	Preparation and Reporting of Information
Section 330	Acting with Sufficient Expertise
Section 340	Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making
Section 350	Inducements

## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 300 Introduction**

#### **300.1 – 300.15 Introduction**

- 300.1 Part C describes how the conceptual framework contained in Part A is to be applied by 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.
- 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 organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 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 organization. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.
- 300.4 A professional accountant in business has a responsibility to further the legitimate aims of their employing organization. The By-Laws do 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 organization. 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 organization that emphasizes the importance that senior management places on ethical behavior.
- 300.6 A professional accountant in business shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity

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or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

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

These threats are discussed further in Part A of the By-Laws.

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

- (a) Holding a financial interest in, or receiving a loan or guarantee from the employing organization.
- (b) Participating in incentive compensation arrangement offered by the employing organization.
- (c) Inappropriate personal use of corporate assets.
- (d) Concern over employment security.
- (e) Commercial pressure from outside the employing organization.

300.9 An example of circumstances 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 organizations professional accountants in business may promote the organization'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 include, but not limited to:

- (a) Being responsible for the employing organization's financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity's financial reporting.

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- (b) Long association with business contacts influencing business decisions.
- (c) 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:

- (a) Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
- (b) 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 Part A of the By-Laws.

300.14 Safeguards in the work environment include:

- (a) The employing organization's systems of corporate oversight or other oversight structures.
- (b) The employing organization's ethics and conduct programmes.
- (c) Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- (d) Strong internal controls.
- (e) Appropriate disciplinary processes.
- (f) Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- (g) Policies and procedures to implement and monitor the quality of employee performance.
- (h) Timely communication of the employing organization's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- (i) Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.

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- (i) 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 organization, the professional accountant in business should consider seeking legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant in business may conclude that it is appropriate to resign from the employing organization.

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### **Section 310 Conflicts of Interest**

#### **310.1 – 310.11 Conflicts of Interest**

310.1 A professional accountant in business may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
- The interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict.

A party may include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

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effective 1 July 2014.**

310.2 Examples of situations in which conflicts of interest may arise include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the professional accountant to the advantage or disadvantage of the other employing organization.
- Undertaking a professional activity for each of two parties in a partnership employing the professional accountant to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the entity employing the professional accountant who are seeking to undertake a management buyout.
- Being responsible for selecting a vendor for the accountant's employing organization when an immediate family member of the professional accountant could benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those specific

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investments will increase the value of the personal investment portfolio of the professional accountant or an immediate family member.

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effective 1 July 2014.**

- 310.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in business shall exercise professional judgment and be alert to all interests and relationships that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude might compromise compliance with the fundamental principles.

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effective 1 July 2014.**

- 310.4 When addressing a conflict of interest, a professional accountant in business is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another professional accountant. When making disclosures or sharing information within the employing organization and seeking guidance of third parties, the professional accountant shall remain alert to the fundamental principle of confidentiality.

- 310.5 If the threat created by a conflict of interest is not at an acceptable level, the professional accountant in business shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the professional accountant shall decline to undertake or discontinue the professional activity that would result in the conflict of interest; or shall terminate the relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

- 310.6 In identifying whether a conflict of interest exists or may be created, a professional accountant in business shall take reasonable steps to determine:

- The nature of the relevant interests and relationships between the parties involved; and
- The nature of the activity and its implication for relevant parties.

The nature of the activities and the relevant interests and relationships may change over time. The professional accountant shall remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.



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- 310.7 If a conflict of interest is identified, the professional accountant in business shall evaluate:
- The significance of relevant interests or relationships; and
  - The significance of the threats created by undertaking the professional activity or activities. In general, the more direct the connection between the professional activity and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.
- 310.8 The professional accountant in business shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following safeguards may be appropriate:
- Restructuring or segregating certain responsibilities and duties.
  - Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.
  - Withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.
  - Consulting with third parties, such as a professional body, legal counsel or another professional accountant.
- 310.9 In addition, it is generally necessary to disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in business undertaking the professional activity. In certain circumstances, consent may be implied by a party's conduct where the professional accountant has sufficient evidence to conclude that parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.
- 310.10 When disclosure is verbal, or consent is verbal or implied, the professional accountant in business is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.
- 310.11 A professional accountant in business may encounter other threats to compliance with the fundamental principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close or immediate family members of the professional

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accountant have with the employing organization. Guidance on managing such threats is covered by Sections 320 and 340 of the By-Laws.

**Sections 310.4 – 310.11 were inserted on 22 July 2013;  
effective 1 July 2014.**

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## **PART I: BY-LAWS ON PROFESSIONAL ETHICS**

### **Section 320 Preparation and Reporting of Information**

#### **320.1 – 320.7 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 organization. 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 as part of an audit of 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 organization 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:
- (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 integrity, 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 prepare or report information in a misleading way or to become associated with misleading information through the actions of others.

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effective 1 July 2014.**

- 320.5 The significance of such threats will depend on factors such as the source of the pressure and the corporate culture within the employing organization. The professional accountant in business shall be alert to the principle of integrity, which imposes an obligation on all professional accountants to be

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straightforward and honest in all professional and business relationships. Where the threats arise from compensation and incentive arrangements, the guidance in section 340 is relevant.

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effective 1 July 2014.**

- 320.6 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards include consultation with superiors within the employing organization, the audit committee or those charged with governance of the organization, or with a relevant professional body.

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effective 1 July 2014.**

- 320.7 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 circumstances outside the organization, the professional accountant in business may consider obtaining legal advice. In addition, the professional accountant may consider whether to resign.

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### **Section 330 Acting with Sufficient Expertise**

#### **330.1 – 330.4 Acting with Sufficient Expertise**

- 330.1 The fundamental principle of professional competence and due care requires that a professional accountant in business should 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 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:
- (a) Insufficient time for properly performing or completing the relevant duties.
  - (b) Incomplete, restricted or otherwise inadequate information for performing the duties properly.
  - (c) Insufficient experience, training and/or education.
  - (d) Inadequate resources for the proper performance of the duties.
- 330.3 The significance of the threats 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 threats shall be evaluated and,—safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
- (a) Obtaining additional advice or training.
  - (b) Ensuring that there is adequate time available for performing the relevant duties.
  - (c) Obtaining assistance from someone with the necessary expertise.
  - (d) Consulting, where appropriate, with:
    - (i) Superiors within the employing organization;
    - (ii) Independent experts; or
  - (e) To seek guidance from the Institute.
- 330.4 Where threats cannot be eliminated or reduced to an acceptable level, professional accountants in business shall determine whether to refuse to

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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.

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### **Section 340 Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making**

#### **340.1 – 340.4 Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making**

340.1 Professional accountants in business may have financial interests, including those arising from compensation or incentive arrangements, or may know of financial interests of immediate or close family members, that, in certain circumstances, may create threats to compliance with the fundamental 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 organization 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, deferred bonus share entitlements or share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant in business.
- Otherwise participates in compensation arrangements which provide incentives to achieve performance targets or to support efforts to maximize the value of the employing organization's shares, for example, through participation in long-term incentive plans which are linked to certain performance conditions being met.

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340.2 Self-interest threats arising from compensation or incentive arrangements may be further compounded by pressure from superiors or peers in the employing organization who participate in the same arrangements. For example, such arrangements often entitle participants to be awarded shares in the employing organization at little or no cost to the employee provided certain performance criteria are met. In some cases, the value of the shares awarded may be significantly greater than the base salary of the professional accountant in business.

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- 340.3 A professional accountant in business shall not manipulate information or use confidential information for personal gain or for the financial gain of others. The more senior the position that the professional accountant in business holds, the greater the ability and opportunity to influence financial reporting and decision making and the greater the pressure there might be from superiors and peers to manipulate information. In such situations, the professional accountant in business shall be particularly alert to the principle of integrity, which imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships.

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effective 1 July 2014.**

- 340.4 The significance of any threat created by financial interests, 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, a professional accountant in business shall evaluate the nature of the interest. This includes evaluating the significance of the interest. What constitutes a significant interest will depend 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 exercise entitlements or trade in relevant shares, to those charged with the governance of the employing organization, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organization.
- Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
- Internal and external audit procedures.
- Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.

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### **Section 350 Inducements**

#### **350.1 – 350.4 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, and merely from the fact of the offer having been made, additional safeguards should 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 organization immediately when such offers have been made.

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- (b) Inform third parties of the offer – for example, a professional body 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;
- (c) Advise immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example, as a result of their employment situation; and
- (d) Informing higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

### **350.5 – 350.8 Making Offers**

- 350.5 A professional accountant in business may be in a situation where the professional accountant in business is expected ~~to~~, or is under other pressure, to offer inducements to influence the judgment or decision-making process of an individual or organization, or obtain confidential information.
- 350.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organization, 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 organization, the professional accountant shall follow the principles and guidance regarding ethical conflict resolution set out in Part A.

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### **Section 360 Responding to Non-Compliance with Laws and Regulations**

#### **360.1 – 360.4 Purpose**

- 360.1 A professional accountant in business may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of carrying out professional activities. The purpose of this section is to set out the professional accountant's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the professional accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the employing organization, including whether or not it is a public interest entity.
- 360.2 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, committed by the professional accountant's employing organization or by those charged with governance, by management, or by other individuals working for or under the direction of the employing organization which are contrary to the prevailing laws or regulations.
- 360.3 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the professional accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party prior to making any disclosure, for example, pursuant to anti-money laundering legislation.
- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the fundamental principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

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- (ii) Deter the commission of the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

### **360.5 – 360.9 Scope**

- 360.5 This section sets out the approach to be taken by a professional accountant who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements, but compliance with which may be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.
- 360.6 Examples of laws and regulations which this section addresses include those that deal with:
- Fraud, corruption and bribery.
  - Money laundering, terrorist financing and proceeds of crime.
  - Securities markets and trading.
  - Banking and other financial products and services.
  - Data protection.
  - Tax and pension liabilities and payments.
  - Environmental protection.
  - Public health and safety.
- 360.7 Non-compliance may result in fines, litigation or other consequences for the employing organization that may have a material effect on its financial statements. Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

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360.8 A professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the employing organization, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

360.9 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the employing organization; and
- (b) Non-compliance other than by the employing organization or those charged with governance, management, or other individuals working for or under the direction of the employing organization.

The professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **360.10 Responsibilities of the Employing Organization's Management and Those Charged with Governance**

360.10 It is the responsibility of the employing organization's management, with the oversight of those charged with governance, to ensure that the employing organization's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the employing organization or by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the employing organization.

### **360.11 – 360.12 Responsibilities of Professional Accountants in Business**

360.11 Many employing organizations have established protocols and procedures (for example, an ethics policy or internal whistle-blowing mechanism) regarding how non-compliance or suspected non-compliance by the employing organization should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the professional accountant's employing organization, the professional accountant shall consider them in determining how to respond to such non-compliance.

360.12 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the professional accountant takes to comply with this section shall be taken on a timely basis, having regard to the professional accountant's understanding of the nature of the matter and the potential harm

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to the interests of the employing organization, investors, creditors, employees or the general public.

### **360.13 – 360.32 Responsibilities of Senior Professional Accountants in Business**

360.13 Senior professional accountants in business (“senior professional accountants”) are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization’s human, financial, technological, physical and intangible resources. Because of their roles, positions and spheres of influence within the employing organization, there is a greater expectation for them to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organization.

#### *Obtaining an Understanding of the Matter*

360.14 If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall obtain an understanding of the matter, including:

- (a) The nature of the act and the circumstances in which it has occurred or may occur;
- (b) The application of the relevant laws and regulations to the circumstances; and
- (c) The potential consequences to the employing organization, investors, creditors, employees or the wider public.

360.15 A senior professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional accountant’s role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may cause, or take appropriate steps to cause, the matter to be investigated internally. The professional accountant may also consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

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### *Addressing the Matter*

- 360.16 If the senior professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, discuss the matter with the professional accountant's immediate superior, if any, to enable a determination to be made as to how the matter should be addressed. If the professional accountant's immediate superior appears to be involved in the matter, the professional accountant shall discuss the matter with the next higher level of authority within the employing organization.
- 360.17 The senior professional accountant shall also take appropriate steps to:
- (a) Have the matter communicated to those charged with governance to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities;
  - (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
  - (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
  - (d) Reduce the risk of re-occurrence; and
  - (e) (e) Seek to deter the commission of the non-compliance if it has not yet occurred.
- 360.18 In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed pursuant to the professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

### *Determining Whether Further Action Is Needed*

- 360.19 The senior professional accountant shall assess the appropriateness of the response of the professional accountant's superiors, if any, and those charged with governance.
- 360.20 Relevant factors to consider in assessing the appropriateness of the response of the senior professional accountant's superiors, if any, and those charged with governance include whether:
- The response is timely.

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- They have taken or authorized appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

360.21 In light of the response of the senior professional accountant's superiors, if any, and those charged with governance, the professional accountant shall determine if further action is needed in the public interest.

360.22 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the matter.
- The pervasiveness of the matter throughout the employing organization.
- Whether the senior professional accountant continues to have confidence in the integrity of the professional accountant's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.

360.23 Examples of circumstances that may cause the senior professional accountant no longer to have confidence in the integrity of the professional accountant's superiors and those charged with governance include situations where:

- The professional accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported the matter, or authorized the matter to be reported, to an appropriate authority within a reasonable period.

360.24 In determining the need for, and nature and extent of any further action needed, the senior 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 professional accountant has acted appropriately in the public interest.



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- 360.25 Further action by the professional accountant may include:
- Informing the management of the parent entity of the matter if the employing organization is a member of a group.
  - Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
  - Resigning from the employing organization.
- 360.26 Where the senior professional accountant determines that resigning from the employing organization would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and resignation may be the only available course of action.
- 360.27 As consideration of the matter may involve complex analysis and judgments, the senior professional accountant may consider consulting internally, obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

### *Determining Whether to Disclose the Matter to an Appropriate Authority*

- 360.28 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.
- 360.29 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:
- The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
  - The employing organization is a regulated entity and the matter is of such significance as to threaten its license to operate.
  - The employing organization is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the employing organization's securities or pose a systemic risk to the financial markets.

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- Products that are harmful to public health or safety would likely be sold by the employing organization.
- The employing organization is promoting a scheme to its clients to assist them in evading taxes.

The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals.

360.30 If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions.

360.31 In exceptional circumstances, the senior professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

### *Documentation*

360.32 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to have the following matters documented:

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- The matter.
- The results of discussions with the professional accountant's superiors, if any, and those charged with governance and other parties.
- How the professional accountant's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the professional accountant considered, the judgments made and the decisions that were taken.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 360.21.

### **360.33 – 360.36 Responsibilities of Professional Accountants Other than Senior Professional Accountants in Business**

360.33 If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

360.34 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

360.35 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, inform an immediate superior to enable the superior to take appropriate action. If the professional accountant's immediate superior appears to be involved in the matter, the professional accountant shall inform the next higher level of authority within the employing organization.

360.36 In exceptional circumstances, the professional accountant may decide that disclosure of the matter to an appropriate authority is an appropriate course of action. If the professional accountant does so pursuant to paragraph 360.29, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant

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shall act in good faith and exercise caution when making statements and assertions.

### **360.37 Documentation**

360.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the professional accountant's superior, management and, where applicable, those charged with governance and other parties.
- How the professional accountant's superior has responded to the matter.
- The courses of action the professional accountant considered, the judgments made and the decisions that were taken.

**Section 360 was inserted on 4 January 2017;  
effective 15 July 2017**

## **PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE**

### **4. PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE**

#### **EXPLANATORY FOREWORD**

1. Part II of the By-Laws of the Institute consists of the By-Laws on Professional Conduct and Practice. The By-Laws on Professional Conduct and Practice sets out the obligations applicable to all members as professional accountants or to member firms in respect of their professional conduct or the practice of their firms.
2. Part II of the By-Laws has been framed with the objective that members exhibit the highest standards of professionalism and professional conduct that are expected of the profession, when dealing with the Institute, employers or clients, regulators and other stakeholders, as well as with each other.
3. A breach of these By-Laws will prima facie give rise to a complaint of unprofessional conduct against the member concerned. As such, members who fail to observe proper standards of professional conduct as set out in these by-laws may be required to answer a complaint before the Investigation and the Disciplinary Committees of the Institute pursuant to the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P.U.(A) 229/2002].
4. The By-Laws on Professional Conduct and Practice consists of two parts. Part A sets out the professional conduct obligations of all professional accountants as members of the Institute. Part B sets out the professional conduct or practice obligations of members in public practice or member firms, as may be the case.

<p><b>NOTE: Part II of the By-Laws incorporates some of the Institute's existing By-Laws (On Professional Ethics and Conduct) that have not been subsumed in Part I.</b></p>
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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### PART A: ALL PROFESSIONAL ACCOUNTANTS

Section 400	Induction Course upon Admission
Section 410	Continuing Professional Education
Section 420	Description and Designatory Letters
Section 430	Public Practice Programme
Section 440	Attention to Correspondence and Enquiries
Section 450	Compliance with Orders, Directions or Requirements

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 400 Induction Course upon Admission

#### 400.1 – 400.5 Induction Course

400.1 All professional accountants once admitted as members of the Institute, are required to attend an Induction Course organised by the Institute, within six (6) months of admission.

400.2 The Council may in its absolute discretion, grant a postponement from the requirement of this section for the following reasons:-

- (a) prolonged illness or disability; or
- (b) any other reason as may be found reasonable by the Council.

**Amended on 6 December 2012;  
effective immediately.**

400.3 An application made pursuant to paragraph 400.2 should be in writing and supported by a certificate from a licensed physician or hospital in the case of subparagraph (a), or supported by any other relevant documents in respect of subparagraphs (b), wherever appropriate. Such application should be made as soon as practicable and in any event, before the expiry of six (6) months from the date of admission.

**Amended on 6 December 2012;  
effective immediately.**

400.4 The decision of the Council on an application made pursuant to paragraph 400.2 is final.

400.5 In exercising its discretion pursuant to paragraph 400.2, the Council may require the professional accountant to submit a letter of undertaking stating that the professional accountant will attend the Induction Course upon recovery from the illness or upon the lapse of the reason for which the Council has granted the exemption.

**Amended on 6 December 2012;  
effective immediately.**

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 410 Continuing Professional Education

#### 410.1 – 410.5 Continuing Professional Education

410.1 There are rapid changes to the knowledge and competencies that are required of professional accountants in order for them to discharge their professional obligations effectively and responsibly. Rapid developments by way of changes to legislation, accounting standards and guidelines, developments in technology, increased public expectations of the services of professional accountants, place increasing demands on the profession. Professional accountants face unprecedented scrutiny about the quality of internal control, governance, financial statements and independent audits. These pressures apply to professional accountants in both the private and public sectors. Professional accountants in all sectors have important contributions to make. Continued development of professional competence and lifelong learning are critical to meet these expectations. It is every professional accountant's responsibility to ensure that the quality of professional service rendered is of high standard.

410.2 In order to maintain professional competence and to ensure the exercise of due care at all times, a professional accountant is required to fulfill the requirements of and participate in CPE learning activities that are relevant to his or her current and future work and professional responsibilities. CPE requirements are applicable to all professional accountants regardless of sector or size of business in which they operate, because:

- (a) All professional accountants have an ethical obligation of due care to their clients, employers and relevant stakeholders and need to demonstrate their ability to discharge this responsibility in a competent manner.
- (b) Professional accountants in all sectors hold positions of importance involving among others, financial reporting, public accountability and maintaining the public trust.
- (c) The public is likely to rely on the designation or professional standing of the professional accountant. Moreover, all professional accountants carry the professional designation and any lack of competence or ethical behaviour has the same consequences to the reputation and standing of the profession, irrespective of the sector or role in which they operate.
- (d) All sectors are affected by the rapidly changing environment and the consequential need to adapt the strategic or business plans of those organizations relying on the professional accountant's professional competence.
- (e) Employers hiring professional accountants in any sector rely, at least to some extent, on the professional designation as proof of professional competence.



## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

410.3 CPE learning activities are those learning activities that develop and maintain capabilities to enable professional accountants to perform competently within their professional environments. Participation in CPE learning activities is therefore vital in maintaining high standards and public confidence in the profession.

410.4 All professional accountants are required to complete at least 120 CPE credit hours of relevant CPE learning for every rolling 3 calendar year period, of which 60 CPE credit hours should be structured and verifiable, and at least twenty (20) CPE credit hours of such structured and verifiable CPE learning should be obtained each calendar year. As the structured CPE credit hours are calculated on a yearly basis, no transfer can be made for the extra hours obtained in any other year.

For the purpose of renewal as an approved company auditor, a minimum of 10 out of 20 structured CPE hours to be completed by the member each year, must be related to International Standards on Quality Control (ISQC 1), approved auditing standards and/or approved accounting standards.

**Section 410.4 was inserted on 26 May 2016;  
effective 1 January 2017.**

Accredited structured and unstructured CPE learning activities are shown in Appendix V to the By-Laws. The application of these requirements to professional accountants who have been admitted as members at different periods is set out below:

**Amended on 26 May 2016;  
effective 1 January 2017.**

- (a) Members admitted from 1 January to 30 June, the CPE requirement commences in the current calendar year; and
- (b) Members admitted from 1 July to 31 December, the CPE requirement commences in the next calendar year.

**Para. (a) and (b) were inserted on 26 May 2016;  
effective 1 January 2017.**

410.5 Any failure to maintain and improve professional competence is a violation of one of the fundamental principles of the profession and can result in disciplinary action. It is unfair to the majority of professional accountants who comply with the CPE requirements to allow those who do not comply to claim the same status or competencies.

<b>NOTE: The above provisions are based substantially on the provisions in the International Education Standard (IES) 7 issued by IFAC.</b>
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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### 410.6 – 410.13 Continuing Professional Education Audit

410.6 A CPE audit will be conducted by the Institute on a sample of professional accountants who will be selected at random from the Institute's records. During each CPE audit, the randomly selected professional accountants will be required to produce evidence of their compliance with the CPE requirements set out in section 130 of Part I of the By-Laws.

410.7 Professional accountants are required to maintain records of their compliance with the CPE requirements set out in section 410 above.

410.8 Professional accountants are required to tender the appropriate evidence of such compliance if called upon to do so.

**Amended on 1 November 2013;  
effective 1 January 2014.**

410.9 The Council may in its absolute discretion, grant a temporary or partial exemption from the CPE requirements for the following reasons -

- (a) prolonged illness or disability; and/or
- (b) any other reason as may be determined by the Council.

410.10 An application made pursuant to paragraph 410.9 should be in writing and supported by a certificate from a licensed physician or hospital in the case of subparagraph (a), or supported by any other relevant documents in respect of subparagraphs (b), wherever appropriate. Such application should be made no later than 30 days after the professional accountant is selected for the CPE audit.

410.11 The decision of the Council on an application made pursuant to paragraph 410.9 is final.

410.12 In exercising its discretion pursuant to paragraph 410.9, the Council may require the professional accountant to submit a letter of undertaking stating that the professional accountant will fulfill the CPE requirements pursuant to section 410 above upon recovery from the illness or upon the lapse of the reason for which the Council has granted the exemption.

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- 410.13 Members of the Institute who are mentors in the CARE programme for duration of one (1) year will be entitled to 4 CPE structured hours regardless of the number of the mentee that he has.

Amended on 1 November 2013;  
effective 1 January 2014.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 420 Description and Designatory Letters

#### 420.1 – 420.7 Description and Designatory Letters

420.1 Every professional accountant in describing himself or herself as an accountant in Malaysia shall use the designations "Chartered Accountant", "Licensed Accountant" or "Associate Member" with the designatory letters "C.A.(M)", "L.A.(M)" or "A.M.(M)" respectively.

420.2 A professional accountant may use in conjunction with the abovementioned designations or the abovementioned designatory letters any letters or words or a combination of letters and words to indicate -

- (a) membership of other professional bodies including the recognised bodies which are specified in Part II of the First Schedule to the Act;
- (b) possession of academic degrees or diplomas of institutions of higher learning or any academic post-graduate qualification from institutions of higher learning; or
- (c) possession of civil or military honours or decorations.

420.3 A member may use in conjunction with the designations or designatory letters mentioned in section 420.2 above any letters or combination of letters to indicate membership of other professional bodies as specified in Part II of the First Schedule to the Act, provided always that the designatory letters "C.A.(M)", "L.A.(M)" or "A.M.(M)" shall be used in precedence to all other designatory letters indicating membership of other accountancy bodies.

**Section 420.3 was inserted on 1 November 2013;  
effective 1 January 2014.**

420.4 A member in public practice shall describe his or her firm as a firm of "Chartered Accountants" or as a firm of "Licensed Accountants" as appropriate.

420.5 Every member in public practice who signs any reports or other documents in a professional capacity either as an individual or for and on behalf of the firm shall only use the designations "Chartered Accountant" or "Chartered Accountants" or "Licensed Accountant" or "Licensed Accountants" to describe that member in public practice or the firm in the report or documents.

420.6 Every professional accountant signing the statutory declaration regarding the correctness of financial statements under Section 251(1)(b) of the

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

Companies Act 2016 shall include his or her membership number in the statutory declaration.

- 420.7 The statutory declaration must be made in the format provided for in the Statutory Declarations Act 1960.

Section 420.6 and Section 420.7 were inserted on 22 March 2018;  
effective 1 April 2018.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 430 Public Practice Programme

#### 430.1 – 430.2 Public Practice Programme

- 430.1 (1) All professional accountants are required to attend and complete the Institute's Public Practice Programme ("Programme") prior to his/her application for a practising certificate, if:
- (a) such application is made for the first time, pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001; or
  - (b) such application is a re-application and the earlier or first application for a practising certificate was made prior to 1 July 2006.

**Amended on 1 November 2013;  
effective 1 January 2014.**

- (2) The Council or any other Committee so delegated by the Council for this purpose, may reject the application of any professional accountant for a practising certificate if there is non-compliance with the above requirement without valid reason. Any professional accountant aggrieved with such a decision, may appeal to the Council whose decision on the same is final.

**Amended on 29 May 2012;  
effective immediately.**

- (3) The Council may grant an exemption from the Programme requirement to any member it deems fit.

**Section 430.1(3) was inserted on 18 Sep 2012;  
effective immediately.**

- 430.2 (1) The Certificate issued for this Programme shall only be valid for 2 years from the date of attendance for the purpose of applying the practicing certificate.

**Amended on 1 August 2018;  
effective 1 January 2019.**

- (2) The valid Certificate shall be submitted prior: -
- (i) to submission for application of audit licence (first-time application only); or
  - (ii) to setting up a non-audit practice or joining an existing non-audit firm as a partner; or

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(ii) to participation as a director in limited or unlimited company which offers public practice services.

**Amended on 1 August 2018;  
effective 1 January 2019.**

- (3) In the event that the Certificate is no longer valid after obtaining approval for the application of audit licence, the member would be required to re-attend the Programme within six (6) months after setting up an audit practice or joining an existing audit firm as a partner.

**Amended on 1 August 2018;  
effective 1 January 2019.**

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 440 Attention to Correspondence and Enquiries

#### 440.1 – 440.3 Attention to Correspondence and Enquiries

- 440.1 For purposes of correspondence and enquiries between professional accountants in their capacity as professional accountants, replies to the professional correspondence and enquiries between them must be done expeditiously.
- 440.2 Section 440.1 shall not be applicable for purposes of the procedures stated under Appendix II to section 210 for seeking professional clearance.
- 440.3 For purposes of correspondence and enquiries from the Institute, replies by professional accountants to the professional correspondence and enquiries must be done expeditiously.

Sections 440.1, 440.2 and 440.3 were inserted on 1 November 2013;  
effective 1 January 2014.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 450 Compliance with Orders, Directions or Requirements

#### 450.1 Compliance with Orders, Directions or Requirements

- 450.1 Strict compliance shall be observed with regard to:
- (a) any order, direction or requirement made, given or imposed under these By-Laws; and
  - (b) any order made by the Disciplinary Committee or Disciplinary Appeal Board under the Malaysian Institute of Accountants (Disciplinary) Rules.

Section 450 was inserted on 1 November 2013;  
effective 1 January 2014.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### PART B: MEMBERS IN PUBLIC PRACTICE

Section 500	Method of Practice
Section 510	Professional Indemnity Insurance
Section 520	Death or Incapacity of a Sole Practitioner
<del>Section 530</del>	<del>Client Documents and Exercise of Lien</del> <i>[Removed on 1 November 2013; effective 1 January 2014]</i>
Section 540	Referrals
Section 550	Quality Assurance and Practice Review
Section 560	Engagement Partners
Section 570	Prospective Financial Information

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 500 Method of Practice

#### 500.1 – 500.6 Method of Practice

- 500.1 A member in public practice is not allowed to practise as a chartered accountant or licensed accountant other than -
- (a) in his or her own name, or
  - (b) in the name or names of his or her partner or partners, being chartered accountants or licensed accountants; or
  - (c) in the name of a firm existing at the time of the coming into operation of the Act or formed thereafter provided that the partners in Malaysia are eligible to be registered as chartered accountants or licensed accountants.

**The previous Section 500.1 was replaced with Section 500.2  
on 1 November 2013; effective 1 January 2014.**

- 500.2 Subject to section 500.1, a member in public practice shall be allowed to practice as a chartered accountant or licensed accountant in the name of a local or international firm, which is affiliated to the member in public practice, provided that the use of such name is with the consent of the relevant local or international firm.

**Section 500.2 was inserted on 1 November 2013;  
effective 1 January 2014.**

- 500.3
- (1) A member in public practice should not allow the name of the firm to be used by any organisation to conduct business that is incompatible to public practice or which would bring the profession to disrepute.
  - (2) A member in public practice should not report or express an opinion on financial statements examined for the purposes of such report or opinion by a person other than a staff or member of his or her firm, unless such other person is also a member in public practice, except for entities which are incorporated or operating outside Malaysia.
  - (3) A member in public practice should not assist by any means and in any manner whatsoever any person who practises or holds himself or herself out as a chartered accountant, auditor, tax consultant, tax adviser or any other like description in contravention of the Act or any other law for the time being in force in Malaysia.
- 500.4 Subject to paragraph 500.6, a member in public practice should not allow any person who is not a member of the Institute to practise in partnership with him or

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her as a chartered accountant/licensed accountant or to practise in his or her name as a chartered accountant/licensed accountant.

- 500.5
- (1) A member who is not entitled to be a member in public practice is not allowed to-
    - (a) hold himself or herself out to be a member in public practice in any manner whatsoever;
    - (b) provide public practice services as a chartered accountant, auditor, tax consultant or tax adviser or any services of a similar nature that may indicate or be likely to lead persons to infer that he or she is a member in public practice or qualified by any written law to practise the profession of or is in practice as a chartered accountant.
  - (2) Notwithstanding paragraph 500.5(1), the aforesaid member may carry on the work of a tax consultant or a tax adviser if authorised to do so under section 153 of the Income Tax Act 1967.
  - (3) A member who is registered with the Institute as a licensed accountant is not precluded by paragraph 500.5(1) from carrying on any practice in which he or she was professionally engaged immediately before the coming into operation of the Act.
- 500.6
- (1) A member may subject to these by-laws, participate as a director in a limited or unlimited company which offers taxation, tax advice, taxation consultancy services, accounting and all forms of accounting related consultancy, accounting related investigations or due diligence, forensic accounting, book keeping, costing and management accounting, insolvency, liquidation, receivership, management systems and internal controls and secretarial services under the Companies Act 2016, provided that in doing so -
    - (a) the member and/or the company does not contravene any written law; and
    - (b) the company is not in any way described as Chartered Accountants or Licensed Accountants.

**Amended on 22 March 2018;  
effective 1 April 2018.**

- (2) Where members participate as directors in limited or unlimited companies in the manner as stated in paragraph 500.6(1), such members are -
  - (a) deemed for the purposes of these by-laws to be members in public practice whereby members are required to hold valid practicing certificates and the provisions of the rules of the Institute and these by-laws with the appropriate modifications, apply to such members; and

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

- (b) cause the companies to comply with these by-laws provided such members hold the majority interest and/or voting rights whether directly or indirectly in the companies.

**Sections 500.6(1) and 500.6(2)(a) were amended on 1 November 2013;  
effective 1 January 2014.**

### 500.7 – 500.12 Establishment and Registration of Member Firm

500.7 Every professional accountant prior to commencement of public practice should apply to the Institute for approval of the proposed name of the intended firm or practice.

- 500.8 (1) Where an application is made pursuant to paragraph 500.7, the Council or any other Committee so delegated by the Council for this purpose must be satisfied that the proposed name of the intended practice does not duplicate the name of an existing member firm and is not a name which in the opinion of the Council is undesirable, before approval is granted.

**Amended on 29 May 2012;  
effective immediately.**

- (2) Any professional accountant aggrieved with such a decision, may appeal to the Council whose decision on the same is final.

- 500.9 (1) Every member in public practice is required to -
- (a) register his firm with the Institute by informing the Institute in writing of the name and address of his or her firm and the addresses of any branches and any other relevant particulars requested by the Institute;
  - (b) inform the Institute of any changes in respect of the particulars referred to in sub-paragraph (a) within one (1) month thereafter;
  - (c) if the firm is associated with any other firm of accountants, register such association whether local or overseas with the Institute and this must be supported by evidence; and
  - (d) upon registration of his firm with the Institute, lodge an annual return with the Institute by 31 January of each calendar year despite the fact that there may be no changes in particulars to the firm.
- (2) Where the member is practising in a partnership, only one partner of the firm is required to lodge the annual return on behalf of the firm.

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- 500.10 Upon registration of the firm pursuant to paragraph 500.9, the Institute will issue the firm a certificate of registration which -
- (a) states the firm's registration number and that the firm is a member firm of the Institute;
  - (b) is required to be displayed at the premises of the member's firm; and
  - (c) has to be surrendered by the member in public practice to the Institute upon the dissolution of the firm or change of name of the firm.
- 500.11 A member in public practice whose firm has been duly issued a certificate of registration pursuant to paragraph 500.11 and who is in compliance with these by-laws may insert the logo of the Institute on any printed or electronic publication materials issued by the firm whereby the options are -
- (a) to insert the words "A Firm Registered with the Malaysian Institute of Accountants" under the logo; or
  - (b) to insert the words "Member Firm of" above the logo;
  - (c) the logo can be either in "full colour" or in "black and white" or in "black and grey" and should be used in accordance with the guidelines issued by the Council from time to time on the use of the logo.
  - (d) MIA logo shall only be used in any manner that is deemed fit and proper for the material type.

**Amended on 6 December 2012;  
effective immediately.**

- 500.12
- (1) Every member in public practice is required to state his/her firm's number immediately after or below the firm's name, in official letters, accounts, invoices, official notices, publications, bills of exchange, cheque, receipts, requisition forms and other like documents issued by the firm.
  - (2) The firm number means, in the case of firms providing audit services, the number allocated by the Companies Commission of Malaysia when the firm was first registered with the Registrar, or in the case of firms providing public practice services other than audit services, the number allocated by the Institute.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### 500.13 Branches

- 500.13 A member in public practice should not allow the member firm including any branches of the member firm to be under the management and control of a person who is not a member of the Institute. It is the duty and responsibility of a member in public practice to ensure that any branch of his or her firm is under the management and control of a member of the Institute.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 510 Professional Indemnity Insurance

#### 510.1 – 510.5 Professional Indemnity Insurance

510.1 Every member in public practice is required to ensure that his or her firm carries and maintains a policy of professional indemnity insurance.

510.2 Members in public practice are required to purchase policies from licensed insurance companies.

510.3 (1) Every member in public practice must maintain a policy of professional indemnity insurance with a minimum coverage of Ringgit Malaysia Two Hundred Fifty Thousand (RM250,000.00), upon commencement of public practice.

**Section 510.3(1) was amended on 29 March 2012;  
effective 1 July 2012.**

(2) Proof of such coverage is required for the purpose of the annual renewal of the member's practising certificate pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.

(3) The Council or any other Committee so delegated by the Council for this purpose, may reject the application of any professional accountant for the renewal of the practising certificate if there is non-compliance with the requirements of Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001 or with the above requirement without proper excuse. Any professional accountant aggrieved with such a decision, may appeal to the Council whose decision on the same is final.

**Section 510.3(3) was amended on 29 May 2012;  
effective immediately.**

510.4 Where a member in public practice carries on practice under more than one firm, that member is required to have separate policies of professional indemnity insurance with a minimum coverage of Ringgit Malaysia Two Hundred Fifty Thousand (RM250,000.00) each, for himself or herself in each of these firms.

**Amended on 29 March 2012;  
effective 1 July 2012.**



## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

- 510.5 Where members choose to practice as a compound firm (herein defined as a mixture of firms as well as body corporate recognised by the Institute as practising under a group), one of the member within the compound firm can be nominated to arrange for the insurance need of the compound firm under one single policy. Any other Committee so designated by the Council must be satisfied that the compound firm has shown that together, they comply with Section 510.4 above

**Amended on 29 May 2012;  
effective immediately.**

- 510.6 All members with practising certificates should satisfy themselves that they or their firm (including the compound firm) have suitable arrangements in place to comply with the By-Laws on the professional indemnity insurance of the Institute at all times.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 520 Death or Incapacity of a Sole Practitioner

#### 520.1 – 520.5 Death or Incapacity of a Sole Practitioner

520.1 Unless appropriate arrangements have been made, the continuing incapacity or death of a sole practitioner will cause considerable difficulty and inconvenience to clients. Furthermore, the resultant interruption of services will diminish the value of the practice and may even lead to its disintegration.

520.2 It is therefore important for a sole practitioner, to protect both his or her own interests as well as the interests of the clients, to enter into such arrangement as provided by Section 520.4 of this By-Laws as will enable the practice to be carried on with a minimum of dislocation in the event of incapacity or death.

**Amended on 18 September 2012;  
effective immediately.**

520.3 Such arrangements should be made within two (2) years from the date the sole proprietorship was set up and should provide, so far as possible, for the practice to be continued as a going concern until such time as the sole practitioner recovers or the representatives of his or her estate decide to dispose of the practice.

520.4 (1) A member in public practice who is a sole practitioner is required to enter into an arrangement to enable the practice to continue with minimum disruption in the event of death or incapacity, in either of the following ways:

- (a) by entering into an agreement with another sole practitioner or with a member firm; or
- (b) by satisfying the Council that other adequate provision has been made.

(2) All agreements shall be formalised in writing.

(3) Members in public practice shall ensure that their executors and family are aware, in the event of death or incapacity, of the arrangements made for the management of the practice.

**Section 520.2 was inserted on 1 November 2013;  
effective 1 January 2014.**

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

- 520.5
- (1) An arrangement, reciprocal or otherwise, between two sole practitioners may be appropriate. Alternatively, in many cases it will be advantageous for a sole practitioner to enter into an arrangement with a member firm.
  - (2) Although such an arrangement may take the form of an agreement to manage, an arrangement for the sale of the practice on a predetermination basis may in many cases be more satisfactory.
  - (3) When such arrangements are under consideration, the compatibility of the respective practices, especially in relation to audit procedures, fees and the general state of the work in both offices, should be borne in mind.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

Section 530 *Client Documents and Exercise of Lien* was removed on 1 November 2013;  
effective 1 January 2014.

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 540 Referrals

#### 540.1 – 540.2 Referrals

- 540.1 Where a member in public practice receives an assignment by referral from another member in public practice, that member in public practice should not provide any other professional services to the referring member's client without informing the referring member.
- 540.2 At all times, a member in public practice who accepts a referral from another member in public practice should not do anything that will impair the position of that member in the continuing work for the client.

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 550 Quality Assurance and Practice Review

#### 550.1 – 550.2 Quality Assurance

- 550.1 Every member in public practice is required to ensure that his or her audit firm complies with all applicable professional standards for the purposes of assurance as to the quality of the public practice services provided by the audit firm whether through that member, his or her partner(s) and/or employees. In doing so, every member in public practice has to ensure that the audit firm adopts and applies policies and procedures designed to maintain adherence to professional standards.
- 550.2 The professional standards which are required to be observed and applied by a member in public practice to the extent applicable to the type of public practice services provided by that member or the audit firm, include:
- (a) all standards and statements of professional conduct and ethics in the form of the Institute's By-Laws in issue from time to time;
  - (b) all approved standards whether issued by the Council or otherwise, and all guidelines, statements and/or circulars of best practices issued or prescribed by the Council and/or the Institute from time to time.

#### 550.3 – 550.11 Practice Review

- 550.3 The Institute has established its Practice Review programme pursuant to the Council's Statement on Practice Review issued on 15 November 2002 together with its supporting appendices which are set out in Appendix VI to these By-Laws. Appendix VI forms part of this section.
- 550.4 The objective of Practice Review programme is to ensure that all members in public practice comply with all applicable professional standards, legal and regulatory requirements in the performance of their work.
- 550.5 The Practice Review programme does not set new professional standards. Rather, the professional standards that the members in public practice and/or their audit firms are expected to comply with are those already prescribed by the Institute and which are summarised for convenience in paragraph 550.2 above.

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

- 550.6 All members in public practice through their firms are required to submit to and undergo the Institute's Practice Review programme as established pursuant to the Council's Statement on Practice Review in Appendix VI to these By-Laws.
- 550.7 The Practice Review programme is conducted by the Institute through its Practice Review Committee in accordance with the Council's Statement on Practice Review in Appendix VI to these By-Laws, any other directions issued by the Council from time to time and in accordance with any other procedures and processes as may be determined by the Practice Review Committee.
- 550.8 Every member in public practice shall ensure that his or her audit firm complies with the requirements contained in the Council's Statement on Practice Review in Appendix VI to these By-Laws, any other directions issued by Council from time to time and with any other procedures or requirements imposed by the Practice Review Committee for the purposes of carrying out the practice review pertaining to that audit firm.
- 550.9 The Practice Review programme will be conducted with reasonable frequency in respect of audit firms which are primarily selected in accordance with a risk based approach.
- 550.10 This section, unless otherwise determined by the Council, only operates in respect of members in public practice and their audit firms.

### Cost Related to Practice Review

- 550.11 No practice review fees will be charged. However, all incidental charges and expenses incurred in relation to the review shall be charged on the sole proprietor or partner of the audit firm being reviewed.

**Section 550 was amended on 23 February 2017;  
effective 1 July 2017**

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## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 560 Engagement Partner

#### 560.1 – 560.6 Engagement Partner

- 560.1 (1) The engagement partner shall take responsibility for the overall performance and quality on each engagement to which that partner is assigned, including the need of the engagement team's ability to raise concerns without fear of reprisals.
- (2) For an audit engagement, in furtherance to sub-section (1), the engagement partner shall be responsible in respect of the following:
- (a) The importance to audit quality of performing work that complies with professional standards and applicable legal and regulatory requirements;
  - (b) The importance to audit quality of complying with the firm's quality control policies and procedures as applicable; and
  - (c) The importance to audit quality of issuing reports that are appropriate in the circumstances.
- 560.2 Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.
- 560.3 If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.
- 560.4 The engagement partner shall sign the report in respect of the engagement.
- 560.5 For an audit engagement, section 560.4 shall mean that the audit report required to be signed shall be signed by the audit engagement partner.
- 560.6 The engagement partner shall be held responsible for the report that has been duly signed.

**Amended on 30 June 2015; effective immediately.**



## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

### Section 570 Prospective Financial Information

#### 570.1 – 570.6 Prospective Financial Information

570.1 In view of the high degree of uncertainty of assumptions used in the preparation of prospective financial information, either in the form of a forecast, a projection or a combination of both, and long term prospective financial information is less verifiable, member firms and professional accountants who act as reporting accountants or auditors shall not provide professional services and report on prospective financial information, intended for inclusion in documents for public circulation, other than as permitted by paragraph 570.2.

570.2 Notwithstanding paragraph 570.1, member firms and professional accountants may act as reporting accountants or auditors and report on prospective financial information in relation to the business structures and post-listing transactions which have been deemed appropriate and approved by the Malaysian Institute of Accountants, for inclusion in documents for public circulation.

*The list of business structures and post-listing transactions is set out in Appendix VII to the By-Laws.*

570.3 When conducting an engagement on prospective financial information, as permitted by paragraph 570.2, member firms and professional accountants who act as reporting accountants or auditors, are allowed to report on prospective financial information for a subsequent year, but not exceeding two (2) years, from the date to which the last audited financial statements were made up, provided that more than six (6) months of the current financial year has already elapsed.

570.4 For a newly-established Real Estate Investment Trust, member firms and professional accountants who act as reporting accountants or auditors shall apply the relevant Guidelines issued by the Securities Commission Malaysia.

570.5 Member firms and professional accountants who act as reporting accountants or auditors may provide professional services and report on prospective financial information for private use of the client. However, these prospective financial information that are accompanied by the member firms' and professional accountants' report must not be referred to or included in documents for public circulation.

## PART II: BY-LAWS ON PROFESSIONAL CONDUCT AND PRACTICE

- 570.6 Documents for public circulation are defined as dissemination of documents to general public, for example, prospectus, circular to shareholders and information memorandum.

Section 570 was inserted on 17 June 2016;  
effective 1 July 2016.

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## APPENDICES

### APPENDIX I

#### 5. APPENDICES

##### I. Additional Guidance on Confidentiality for Section 140

In addition to the requirements in Section 140, professional accountants should also consider the additional guidance for the following situations:

###### Seeking Additional Advice

Where a professional accountant is in doubt as to whether he or she has a right or duty to disclose, that professional accountant may, if appropriate, initially discuss the matter within the firm or employing organisation. If that is not appropriate, or if it fails to resolve the issue, the professional accountant should seek legal advice.

###### Evidence in Court

Where a professional accountant is requested to appear before a Court of law as a witness against a current or former client or employer as the case may be, the professional accountant is only legally obliged to do so if served with a subpoena or other form of witness summons. In legal proceedings, the professional accountant should answer any questions that are put, even though this may require the disclosure of information obtained in a confidential capacity but guidance may be sought from the Court on whether there is an obligation to answer particular questions.

###### Assistance to Authorities

If a professional accountant is requested to assist the police, the Inland Revenue Board or other authority by providing information about the business affairs of a client or employer in connection with enquiries being made, the professional accountant should first enquire under what statutory authority the information is requested. Unless the professional accountant is satisfied that such statutory authority exists, no information should be given until authorisation has been obtained from the client or employer. If such statutory authority is not forthcoming and the demand for information is pressed, the professional accountant should not accede unless so advised by his or her legal advisor. The position is the same whether the enquiries relate to a civil or criminal matter.

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### APPENDIX II

#### II. Procedures for Seeking Professional Clearance for Section 210

When seeking professional clearance upon a change in professional appointment, professional accountants are required to comply with the following procedures:

1. Upon receipt of a request for information on whether it would be appropriate to accept the engagement, the existing professional accountant should:
  - (a) reply in writing normally within 14 working days of receipt of such request, advising whether there are any professional reasons why the professional accountant in public practice should not accept the engagement; and
  - (b) if permission is obtained from the client, disclose all such information or if permission is not so obtained, disclose that fact, to the professional accountant in public practice.
2. If the professional accountant in public practice does not receive a reply to the request for information from the existing professional accountant after the expiry of 14 working days of such request, the professional accountant in public practice should:
  - (a) send a reminder to the existing professional accountant by registered post or despatched by hand or by similar means; and
  - (b) if no reply to such reminder is received within 14 working days after sending the reminder, endeavour to communicate with the existing professional accountant by some other means or try to obtain information about any possible threats by other means such as through inquiries of third parties or background investigations on senior management or those charged with governance of the client.
3. If the requested information is not obtained or if the professional accountant in public practice receives a reply from the existing professional accountant that client permission to disclose information has been refused, the professional accountant in public practice should consider whether, taking all the circumstances into account, it is appropriate to accept the engagement.
4. Where a decision is made to accept the engagement, the professional accountant in public practice should inform the existing professional accountant of this decision in writing and send the same to the existing professional accountant by registered post or despatched by hand or by similar means.

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### APPENDIX III

#### III. Additional Guidance on Clients' Monies for Section 270

When dealing with clients' monies, professional accountants in public practice are required to comply with the following:

1. Clients' monies should be paid without delay into a separate bank account which may be either a general account or an account in the name of a specific client but which should in all cases include in its title the word 'client'. Any such account is referred to as 'a client account'.
2. Where a professional accountant in public practice or the firm receives a cheque or draft which includes both clients' monies and other monies, the same is to be credited into a client account. Once the monies have been received into such client account, withdrawals may be made from that account in respect of such part of the sum received as can properly be transferred to the office account of the firm in accordance with the principles set out below.
3. Save as referred to in paragraph 2, no monies other than clients' monies should be paid into a client account.
4. Drawings on a client account should only be made:
  - (a) to meet payments due from a client to the professional accountant in public practice or firm for professional work done for that client provided that:
    - (i) the client has been informed in writing, and has not disagreed, that money held or received for the client will be so applied; and
    - (ii) a bill has been rendered;
  - (b) to cover disbursements made on the client's behalf; or
  - (c) to or on the instructions of the client.
5. Money held by a professional accountant in public practice as stakeholder is regarded as clients' money and should be paid into a separate bank account maintained for the purpose or into a client account.
6. Records should be maintained by the professional accountant in public practice or the firm so as to show clearly the money received, held or paid on account of clients, and the details of any other money dealt with by the professional accountant in public practice or the firm through a client account, clearly distinguishing the money of each client from the money of any other client and

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### **APPENDIX III**

from the money of the professional accountant in public practice or that of the firm.

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### APPENDIX IV

#### IV. Transitional Provisions and Interpretation for Section 290

##### Partner Rotation

1. For a partner who is subject to the rotation provisions in paragraph 2900.151 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 **five** or more years (that is, the audits of 2005–2010), would be required to rotate after serving for one more year as a key audit partner (that is, after completing the 2011 audit).
2. 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 *four* 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 *two* years (that is, the audits of 2004–2005) and subsequently as the engagement partner for *three* years (that is, the audits of 2008–2010) would be required to rotate after serving for one more year as the engagement partner (that is, after completing the 2011 audit).

##### Non-assurance Services

3. 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 By-Laws, services are being provided to an audit or review client and the services were permissible under the *1 January 2007* but are either prohibited or subject to restrictions under the revised By-Laws, the firm may continue providing such services only if they were contracted for and commenced prior to January 1, 2011, and are completed before July 1, 2011.

##### Compensation and Evaluation Policies

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### **APPENDIX IV**

4. 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.

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### APPENDIX V

#### V. Accredited Structured and Unstructured CPE Learning Activities for Section 410

##### 1. ACCREDITED STRUCTURED LEARNING ACTIVITIES/PROGRAMMES

- (a) CPE courses and conferences organised by the Institute or by the Institute jointly with other professional bodies or by other organisations endorsed by the Institute.
- (b) CPE courses and conferences organised by the recognised bodies as listed in Part II of the First Schedule to the Act.
- (c) Courses and conferences organised by other accredited organisations.
- (d) Participation in formal groups and formal self-study programmes designed specifically for members.
- (e) Studies undertaken for the purpose of preparing for a post-qualification course.
- (f) Studies undertaken after qualification with a view to preparing the member for a postgraduate degree - (for example Masters, PhD, professional qualifications).

**Para. 1(f) was amended on 1 November 2013;  
effective 1 January 2014.**

- (g) Suitable courses run by a university or appropriate institution.
- (h) Relevant courses run by a firm in public practice, an industrial company or other business organization.
- (i) Correspondence courses, audiotape or videotape packages, courses of programmed texts or other individual study programmes that are relevant or related to the accountancy profession, which require participation by the member.
- (j) Writing of technical articles, papers or books for publication.
- (k) Working as a lecturer, instructor or discussion leader on a structured course will entitle the member to obtain a maximum of 50% of the minimum CPE credit hours (repeat presentations of the course will entitle the member to not more than 30% of the minimum CPE credit hours for this purpose).
- (l) Service as a member of a committee of the Institute and its branches will entitle the member to obtain a maximum of 2 CPE credit hours for each meeting attended by the member in respect of the committee or the branch of the Institute as the case may be.
- (m) Attendance at Annual General Meetings, Extraordinary General Meetings and Members' Dialogues of the Institute will entitle the member to obtain a maximum of 2 CPE credit hours for each occasion.
- (n) Service as a member of a committee of any one of the recognised bodies as listed in Part II of the First Schedule to the Act and other related bodies,

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will entitle the member to obtain a maximum of 2 CPE credit hours for each meeting.

- (o) Participation in the Institute's activities in the development of standards/guidelines relating to the profession. (A member shall not be entitled to accumulate more than 10 CPE credit hours for participation in the same activity in any one cycle).
- (p) Members of the Institute who are mentors in-the CARE programme for duration of one (1) year will be entitled to 4 CPE structured hours regardless of the number of mentees that he has.

**Para. 1(p) was amended on 1 November 2013;  
effective 1 January 2014.**

- (q) Participation as a speaker in conference and seminars. 1 hour training = 1 CPE credit hours.

**Para. 1(q) was inserted on 1 November 2013;  
effective 1 January 2014.**

For the purpose of renewal as an approved company auditor, a minimum of 10 out of 20 structured CPE hours to be completed by the member each year, must be related to International Standards on Quality Control (ISQC 1), approved auditing standards and/or approved accounting standards.

In fulfilling the specific CPE requirement for purpose of renewal, the above accredited structured activities, must be related to ISQC 1, approved auditing standards and/ or approved accounting standards, with the exception of item (m) and (p), which are not technical-related and hence cannot be used to fulfill the specific CPE requirement for renewal of audit approval.

**Inserted on 26 May 2016;  
effective 1 January 2017.**

## 2. UNSTRUCTURED LEARNING ACTIVITIES/PROGRAMMES

- (a) Reading technical, professional, financial or business literature.
- (b) Use of audio tapes, videotape, correspondence courses etc. that are related or relevant to the accountancy profession (where no participation is required).
- (c) Participation in meetings, briefing sessions or discussion groups not organised by the Institute or by any of the recognised bodies as listed in Part II of the First Schedule to the Act and other related bodies, but which have relevance to the accountancy profession.

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### APPENDIX VI

#### VI. Statement on Practice Review for Section 550

##### STATEMENT ON PRACTICE REVIEW

##### REVIEW PROCEDURES AND CONDUCT OF MEMBERS IN PUBLIC PRACTICE

###### Introduction

1. Paragraph (c) of Section 6 of the Accountants Act, 1967 (the “Act”) provides for the Institute, as one of its objectives, to regulate the practice of the profession of accountancy in Malaysia. Paragraph (f) of Section 6 of the Act further states that the Institute shall be generally able to do such acts as it thinks fit for the purpose of achieving its objectives, including that of regulating the profession.
2. In pursuance of the above, the Council of the Institute hereby issues this Statement on Practice Review for the purposes of implementing a Practice Review programme applicable to all members in public practice pursuant to the Rules and the By-Laws of the Institute.
3. The objective of the Practice Review programme is to ensure that all members in public practice and their audit firms comply with all applicable professional standards, legal and regulatory requirements. Commencing with a review of overall quality control system of the firm and review of current audit engagement files, the Practice Review programme will identify areas where a member in public practice and his or her audit firm may require improvement in order to comply with professional standards, legal and regulatory requirements
4. The Practice Review programme does not set new standards. Rather, the standards that the member in public practice is expected to observe are those already prescribed by the Institute pursuant to the Act, and those prescribed by other regulatory bodies in Malaysia. Details of the standards mentioned above are described in paragraph 11 below.
5. This Statement and its supporting appendices set out the conduct and procedures of the Practice Review programme in general terms. This Statement also provides details of the requirements of the Practice Review programme, what is expected of a member during the conduct of a practice review, and a brief description of the practice review process.

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6. This Statement comes into operation on 1 January 2003 and unless otherwise stated by the Council of the Institute, shall only operate in respect of members in public practice and their firms who provide, among others, audit services. Compliance with the requirements in this Statement is mandatory.

#### Definition of Terms

7. In this statement and its supporting appendices, the following terms have the following meanings assigned to them, unless the context clearly requires otherwise:

<i>ISQCs</i>	- International Standard on Quality Control 1
<i>Member in public practice</i>	- a member, other than an associate member, who, as a sole proprietor or in a partnership, provides or is engaged in public practice services in return for a fee or reward for such services otherwise than as an employee, and who holds a valid practising certificate issued pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.
<i>Practice Review</i>	- in relation to an audit firm, means a full scope examination or review of audit engagement files undertaken pursuant to this Statement and the supporting appendices to determine whether applicable professional standards, legal and statutory requirements are being or have been observed and complied with.
<i>Practice Review Committee</i>	- a committee established by the Council of the Malaysian Institute of Accountants ("the Institute") to conduct practice reviews to determine whether professional standards have been complied with by members in public practice.
<i>Audit firm</i>	- for the purpose of this Statement, a firm of chartered accountants registered with the Institute where the sole proprietor or all the partners are audit license holders and are member of the Institute.
<i>Professional standards</i>	- all those professional standards that are required to be complied with by members in public practice from time to time, and which are for the purposes of this Statement, set out in paragraph 11 below.
<i>Reviewer</i>	- a member of the Institute who is engaged as a full time employee by the Institute for the purpose of carrying out practice reviews.

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<i>Practising Certificate</i>	- the Practising Certificate issued pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.
<i>Full scope review</i>	- Unrestricted review of ISQCs compliance, audit working paper files and audited financial statements.
<i>Risk based approach</i>	- the method adopted by the Practice Review programme in selecting audit firms for review which would consider all risks that are inherent in audit firms, its clients and the environment under which audit firms conduct their professional work. Risk factors, such as those affecting the competence and capability of members in public practice and their firms to perform professional work in compliance with professional standards, are determined from time to time to assess their impact on the firms.

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### APPENDIX VI

#### Scope

##### Members in Public Practice subject to Review

8. All members in public practice offering audit engagements are required to adhere to the standards prescribed by the Institute. All members in public practice and their audit firms so engaged, must submit to practice review, subject to paragraph 9 below.

##### Exemption from Practice Review

9. Where a member in public practice holding a practising certificate completes a declaration in prescribed form certifying that he/she is not engaged in public practice services in so far as it pertains to audit engagements during the preceding twelve (12) months and does not intend to so practise for the foreseeable future, or that he/she will be discontinuing public practice in so far as it pertains to audit engagements in the immediate future (that is a maximum of three (3) months from the date of selection of the firm), he/she may be exempted from practice review at the discretion of the Practice Review Committee.

##### Establishment and appointment of Practice Review Committee

10. The Council of the Institute has mandated the establishment and composition of the Practice Review Committee to oversee the conduct of practice review as follows:
- (a) The Practice Review Committee shall consist of such number of members, being not less than eight (8), as the Council shall determine and not more than half of them shall also be members of the Council.
  - (b) All the members of the Practice Review Committee shall be members of the Institute and a majority of them must hold a valid practising certificate and an audit licence currently in force.
  - (c) For the avoidance of any conflict of interest, a member of the Practice Review Committee shall not at the same time be a member of the Investigation Committee, Disciplinary Committee, nor the Disciplinary Appeal Board.
  - (d) A person shall not be a member of the Practice Review Committee if his/her audit firm had been rated as Type 3 or Type 4 as a result of practice review as described in paragraph 35.

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- (e) The quorum for any meeting of the Practice Review Committee shall not be less than half of the total number of members of the Practice Review Committee for the time being.
- (f) The Practice Review Committee may appoint sub-committees of its members and may delegate to any such sub-committee, with or without restrictions, any of its functions or powers except for the power to make a complaint against a member in public practice to the Investigation Committee.
- (g) The Chairman of the Practice Review Committee shall be a Council Member.
- (h) Subject to the provisions, if any, under the Accountants Act, 1967 and any directions issued by the Council from time to time including those contained in this Statement and supporting appendices, the Practice Review Committee or any sub-committee thereof may regulate its own procedures and processes as it thinks fit.
- (i) All decisions made by the Practice Review Committee during its meetings shall be based on a simple majority of its members who were present in any such meeting.

### Directions of Council

#### Professional Standards

11. The Council has from time to time, issued or specified the professional standards which are to be complied with by members in public practice who offer, among others, audit services. These professional standards form the subject matter of the Institute's Practice Review programme as herein contained. Practice review however, does not seek to redefine the scope and authority of these professional standards but rather seeks to enforce them within the parameters so specified. For the time being and for the purposes of this Statement, the professional standards which will be examined under practice review are as follows:
- (a) all standards and statements of professional conduct and ethics in the form of the Institute's By-Laws in issue from time to time, in so much as these standards and statements relate to the conduct of audit engagements and/or that of the audit firm;
  - (b) all standards and statements of accounting in the form of the approved standards and pronouncements issued by the Malaysian Accounting Standards Board ("MASB") from time to time in so far as significant departures therefrom may affect the requirement for financial statements to give a true and fair view; and

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- (c) all approved auditing standards including International Standards on Quality Control, guidelines and statements of best practices in issue from time to time. This will also include Recommended Practice Guides ("RPG"), statements and circulars issued in relation to audit engagements and the practices of an audit firm.

#### Scope

- 12. The Council has directed the Practice Review Committee to conduct practice reviews pursuant to this Statement and its supporting appendices, in order to determine that the professional standards specified in paragraph 11 above are complied with by all audit firms.

#### Extent of Powers

- 13. Practice reviews will be performed by reviewers employed by the Institute. In order to ensure proper administration of the practice review process, the Practice Review Committee is allowed to exercise its full powers as provided in this Statement and pursuant to any other directives issued by the Council without restriction.

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#### Conduct of Practice Reviews

##### Objective

14. Essentially, a practice review entails, among other things, a review of current audit engagement files and related financial statements to ascertain that the audit firm is adhering to professional standards.
- Practice Review Committee shall determine a rating for the practice review report in accordance to paragraph 35.
- Refer “Summary of the Practice Review Process” to meet the above objective.

##### Selection of Audit Firms for Review

15. The Practice Review Department will select audit firms for review based on a risk approach and will determine the order of review.
16. Audit firms may also be selected for review based on referrals from other regulatory bodies in Malaysia or other committees of the Institute. The Practice Review Committee shall recommend to the Council in the event that the review of any audit firm as mentioned is not to be carried out.
17. Upon the selection of the audit firm to undergo the practice review process, the audit firm will be duly notified within a week in writing via registered post by the Institute.
18. The identity of the audit firm shall be kept confidential from all parties including the Practice Review Committee and those staff of the Institute not directly involved in practice review, except for those relevant reviewers who are directly involved in the review of that audit firm and those regulatory bodies as mentioned in paragraph 24(3).
19. Where the audit firm selected has branch offices or associated practices under more than one name, in so far as possible, the practice review will be conducted to cover all these branches or associated practices at the same time. Members in public practice should ensure that the Institute is aware of all modes of practice conducted by them in order that this can be facilitated.

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#### Notifications

20. Enclosed with the notification letter of selection of firm for review will be a Practice Review Questionnaire ("the Questionnaire"). The audit firm should complete the Questionnaire and return the same through the audit firm's designated practitioner (the sole proprietor, the senior partner or other partner designated as responsible for practice review), along with all information requested, to the Institute within the required period as may be stipulated in the notification letter.
21. The reviewer assigned to the audit firm will be responsible for arranging the practice review visit, which will normally be scheduled within six (6) weeks of such notification. The audit firm shall notify the Institute immediately if they consider the timing of the visit to be inconvenient and shall specify the reasons thereto. Another date will be arranged by mutual consent such that the review will be carried out within four (4) months of such notification. Any further extension is at the reviewer's sole discretion and shall only be granted for valid reasons.
22. The audit firm shall be given reasonable notice of the selection of client files for review. The selection of client files is made by the reviewer from the most current client listing as provided by the audit firm. Such listing must be certified as complete by the audit firm prior to the selection of sample files. The audit firm should always ensure that all current audit engagements which are representative of the operations of the firm should be readily retrievable during the practice review. For the purposes of practice review, such current audit engagement files refer to engagements which have been signed off in the past eighteen (18) months up to the date of the practice review or any other dates that can be reasonably accepted by the reviewer as a practical alternative.

#### Arrangements for Review

23. On-site practice review visits will be conducted at the audit firm's registered office or other registered place of business. The audit firm should ensure that the reviewer is given access to all offices if there are more than one (1) and is given all reasonable assistance for the proper conduct of the practice review. It is expected that the reviewer will be provided with adequate office facilities for him/her to perform his/her work. Alternatively, as circumstances may justify, such as where the Institute has limitation to access certain location, the review may be conducted at the offices of the Institute.

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#### Access to Documents

24. (1) The following provisions shall apply as regards to any practice review:
- (a) Any person, to whom this paragraph applies, and who is reasonably believed by a reviewer to have in his/her possession or under his/her control any record or other document which contains or is likely to contain information relevant to the practice review shall:
    - (i) produce to the reviewer or afford him/her access to, any record or document, specified by the reviewer or any record or other document which is of a class or description so specified and which is in his/her possession or under his/her control being in either case a record or other document which the reviewer reasonably believes is or may be relevant to the practice review, within such time and at such place as the reviewer may reasonably require. Any delay or refusal in producing the document requested by the reviewer may lead to disciplinary action by the Institute;
    - (ii) if so required by the reviewer, give to him/her such explanation or further particulars in respect of anything produced in compliance with a requirement under subparagraph (i) as the reviewer shall specify;
    - (iii) give to the reviewer all assistance in connection with the practice review which he/she is reasonably able to give.
  - (b) Where any information or matter relevant to a practice review is recorded otherwise than in a legible form, any power to require the production of any record or other document conferred under paragraph (a), shall include the power to require the production of a reproduction of any such information or matter or of the relevant part of it in a legible form.
  - (c) A reviewer may inspect, examine or make copies of or take any abstract of or extract from a record or document which may be required to be produced under paragraph (a). However, the making of copies should not be extended to cover those of the audit firm's current or previous clients' listings.
  - (d) A reviewer exercising a power under this paragraph shall, if so requested by a person affected by such exercise, produce for inspection by such person a copy of the authorisation letter furnished to him/her prior to the commencement of the review.

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- (2) Subsection (1)(a) applies to any member of the Institute employed or involved in the audit firm to which the particular practice review relates or to any person employed by or whose services are engaged by such firm.
- (3) In the event that the audit engagements files selected for review are in respect of clients from any regulated industry, subsections (1)(a), (b) and (2) shall only apply after the prior consent on access to those files has been obtained by the Institute from the relevant regulatory authority.
25. Normally the reviewer will require a copy of the financial statements relating to the client file reviewed. The financial statements will be used as a reference for the Practice Review Committee to assess the adequacy of auditing procedures in relation to the materiality of the items concerned. Before the copy of the financial statements is submitted to the Practice Review Committee for consideration, all references to the client's name or names and references within the financial statements which could reveal the client's or the audit firm's identity will be concealed by the reviewer.
26. Subject to paragraph 24(3), where it is considered necessary for the proper completion of the review, a reviewer may request copies of other documentation. In such circumstances, the identity of the client or references which would reveal the identity of the audit firm will be concealed by the reviewer prior to the submission of these copies to the Practice Review Committee for consideration.

#### Reporting

27. At the conclusion of the practice review, a reviewer is required to table a report to the Practice Review Committee. In doing so, the reviewer shall not name any individual in the report except in a suitably codified manner.
28. A reviewer shall, before tabling the report required herein, send a dated draft of the reviewer's report to the audit firm concerned, and to each individual (if any) who is named in the report by registered post or recorded delivery addressed to the registered office or registered address of the audit firm or the individual, as the case may be.
29. The audit firm, following the receipt of the draft report has twenty-one (21) days to make any submissions or representations, in writing to the reviewer, concerning the dated draft of the reviewer's report.

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30. The reviewer is required to attach any written submission or representation made, to the reviewer's report in its final form before submitting it to the Practice Review Committee. The reviewer will delete any reference to the audit firm's identity in these written submissions or representations to preserve confidentiality.
31. The reviewer will subsequently send to the audit firm a copy of the final report as submitted to the Practice Review Committee, by registered post or recorded delivery.

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#### Powers and Procedures of the Practice Review Committee

##### General

32. The Practice Review Committee shall:
- (a) determine the policies and procedures to be observed in relation to practice review to the extent not set out in this Statement and supporting appendices;
  - (b) issue instructions to any reviewer on any matter relating to practice reviews or a particular practice review; and
  - (c) do or perform any other thing or act as may be incidental to or which it considers necessary or expedient for the performance of its functions or exercise of its powers under this Statement.

##### Review and Report

33. After completing the draft report process, the reviewer will forward a copy of the draft report, any submissions or representations from the audit firm (suitably summarised and codified) to the Practice Review Committee for its deliberation.

##### Referral to Registrar

34. If it is found that any one or more or all the partners in the audit firm subject to practice review have failed to comply with professional standards, the Practice Review Committee shall lodge a complaint regarding such partner concerned or, in case there is more than one such person concerned, a separate complaint in respect of each of them, with the Registrar of the Institute.
35. The Practice Review Committee shall determine a rating for the report in the following manner:

##### (a) Type 1 – Satisfactory

Where it considers that no or minimal weaknesses were observed and the audit firm has adequately complied with applicable professional standards, legal and regulatory requirements in the performance of its work.

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#### **(b) Type 2 – Assurance on Compliance Required**

Where it considers that the audit firm has some significant weaknesses which were not pervasive as weaknesses are noted in some engagements but not in others in complying with applicable professional standards, legal and regulatory requirements in carrying out the work in certain areas of the engagements reviewed.

#### **(c) Type 3 – Remedial Action Plan Required**

Where it considers that the audit firm has some significant weaknesses which were pervasive in complying with applicable professional standards, legal and regulatory requirements during the course of carrying out the work of the engagements reviewed in which the work performed and evidence obtained thereon were inadequate and/or inappropriate. Thus the basis needed to form the opinions expressed on those engagements was not adequately supported. In such case, the practitioner is required to draw up a remedial action plan within one (1) month after the date of the final report. The Practice Review Committee may require the practitioner(s) concerned to attend relevant training and educational seminars. Where the monitoring review shows that the audit firm has failed to implement the remedial action plan, the Practice Review Committee shall lodge a complaint with the Registrar.

#### **(d) Type 4 – Unsatisfactory**

In such of the following situations, where:

- (i) an audit firm has committed an offence or a breach against the laws and regulations of the country and the Institute's regulations; or
- (ii) the basis needed to form the opinions expressed on the engagements reviewed was not supported for reasons, inter alia,
  - the member failed to produce audit working files for his/her audit engagement (firms engaging in essentially no audit at all);
  - inadequate manpower to cater to the volume of audit services engaged or no evidence of involvement in the review performed by engagement partner;
  - engaging non-member firms to perform the audit work who are not within the control and supervision of the audit firms.

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*(The word “inter alia” is meant to be non-exhaustive and can include any other findings that could come after an investigation)*

a complaint shall be lodged with the Registrar.

36. A monitoring review on the implementation of the remedial action plan and its ensuing requirements as specified in paragraph 35 will be imposed on audit firms whose reports were rated as Type 3 three (3) months after the approval of the remedial action plan by the Practice Review Committee.
37. The Practice Review Committee will make a complaint against an audit license holder where the disregard of applicable professional standards, legal or regulatory requirements amounts to, in its findings, unprofessional conduct within the meaning prescribed pursuant to Rule 2 of the Malaysian Institute of Accountants (Disciplinary) (No. 2) Rules 2002.
38. Where the Practice Review Committee refers a complaint to the Registrar, the reviewer shall disclose the identity of the audit license holder or the audit firm as the case may be, as well as submit all reports and files including working papers and correspondences pertaining to the review, to the Investigation Committee for its investigation.

#### Referral of Disputes

39. Where a dispute arises over the powers of reviewers as regards to the access to the documents etc. of the audit firm, the reviewer or audit firm or both may refer the dispute to the Practice Review Committee. An audit firm should refer a dispute to the Practice Review Committee in writing via the Registrar.
40. Normally, the Practice Review Committee will delegate the determination of such a dispute to a sub-committee chaired by the Chairman of the Practice Review Committee. As far as possible the confidentiality of the audit firm will be maintained. The Registrar will delete any references to the audit firm's identity from written communications before passing these on to the Practice Review Committee.
41. Where a dispute is referred, after considering any written submissions or representations made by the relevant audit firm and/or the relevant reviewer, the Practice Review Committee:
- (a) shall determine the dispute and communicate such determination to each of the parties to the dispute; and



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- (b) may issue directions relating to the matter in dispute to such audit firm or the reviewer concerned and require such member or reviewer to comply with them.

42. Where an audit firm or a member in public practice is required to comply with a direction given by the Practice Review Committee and fails to comply with the said requirement, the Practice Review Committee may lodge a complaint with the Registrar regarding the audit firm or member in public practice concerned on a simple majority basis.

#### Confidentiality

43. Strict confidentiality provisions shall apply to all those involved in the practice review process, namely the Registrar, reviewers, members of the Practice Review Committee, or any person holding a position who assists any of these parties.

44. Every person referred to in paragraph 43 above shall:
- (a) at all times after his/her appointment preserve and aid in preserving secrecy with regard to any matter coming to his/her knowledge in the performance or in assisting in the performance of any function;
  - (b) not at any time communicate any such matter to any other person; and
  - (c) not at any such time suffer or permit any other person to have any access to any record, document or other thing which is in his/her possession or under his/her control by virtue of his/her being or having been so appointed or his/her having performed or having assisted any other person in the performance of such a function;

provided that the above provisions do not apply in relation to disclosures made in relation to or for the purpose of any investigation and disciplinary proceedings or criminal proceedings and subject to the Institute's sole discretion, specific requests from relevant statutory bodies and regulatory authorities.

45. In order to enhance confidentiality and impartiality, neither the identity of the member, the audit firm or the member's clients will be made known to the Practice Review Committee. Any report prepared by the reviewer for the Practice Review Committee will only identify the audit firm and its clients by code numbers.

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46. Where the final practice review report has been issued by the Practice Review Committee and no further action is required, the report, practice review working papers, correspondence and all documents related to the said review shall be retained for a minimum period of one (1) year. Information required for administration purposes shall be retained in order to evidence that a review requiring no further action has been completed and to identify the audit license holders and the audit firm reviewed. Where the Practice Review Committee decides that further action is necessary, all files shall be retained until such further action has been completed to the satisfaction of the Practice Review Committee.

#### Completeness of Review

47. For practical reasons, not all partners of an audit firm that have been selected for practice review will be reviewed individually as regard the current audit engagement files.
48. However, in most circumstances, the sample of files selected for practice review should be reflective of the firms' overall operations and size.

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#### Summary of Practice Review Process

##### Introduction

The Practice Review Committee shall, among other things, recommend the detailed review process, procedures and practices to be observed in relation to practice review. The review process and review procedures as contained herein have been approved by the Council and shall act as supplemental to the Statement on Practice Review issued by the Council on 15 November 2002 and which came into effect on 1 January 2003. The review process and procedures are summarised below and can be categorised into three stages - planning, execution and reporting.

##### A1. Planning

###### A1.1 *Selection of audit firms by Practice Review Department*

The Practice Review Department will select audit firms using a risk based approach. However, the Practice Review Committee may also, at its sole discretion, review any of the audit firms which are referred by other regulatory bodies in Malaysia. All audit firms selected will be assigned a code for the purpose of preserving the confidentiality of the identities of the audit firms.

###### A1.2 *Notification*

An audit firm will be notified in writing about an impending practice review and will be informed of the assigned reviewer.

###### A1.3 *Notification - Enclosure of Questionnaire*

A Practice Review Questionnaire ("the Questionnaire") will be sent to the audit firm for completion together with the notification of practice review. The Questionnaire comprises mainly the requirements of International Standard on Quality Control 1 ("ISQCs").

###### A1.4 *Return of Completed Questionnaire*

The audit firm should complete and return the Questionnaire within twenty-one (21) days from the date of receipt of the Questionnaire. Disciplinary action shall be taken on non-return of completed Practice Review Questionnaire.

In addition, audit firms are required to prepare a complete list of their audit clients, in a prescribed format, and to provide any other information the reviewer considers necessary to facilitate the selection of a representative sample of audit engagements for review.

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#### A1.5 *Confirmation of Visit*

An initial review date will be proposed by the reviewer for the review to be carried out. The actual review date will be arranged by mutual consent such that the review will be held within four (4) months of notification. Extension beyond four (4) months will be at the sole discretion of the reviewer.

#### A2. **Execution**

It is estimated that at least four (4) full days will be needed to complete a review for an audit firm of a smaller size. However, this is based on the assumption that the audit firm concerned has made all the necessary information and documentation available to the reviewer for his/her review. Reviews of larger firms may take longer to complete.

##### A2.1 *Initial Meeting*

An initial meeting will be held between the reviewer and the sole proprietor or a partner of the audit firm on the commencement of practice review. The primary purpose of this meeting is to explain and clarify the practice review process, amongst others, the consequences of being rated Type 3 and Type 4 for practice review.

##### A2.2. *Review of Quality Controls*

The reviewer shall carry out a review of the quality controls of the audit firm and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the sample size of audit engagements to be reviewed.

Audit firms are expected to address all elements in the ISQCs.

In each key control area of the Questionnaire, there are supplementary questions and matters to consider. These are intended to indicate the kind of controls that are expected to be implemented and operated within each firm.

All questions may not necessarily be relevant to some audit firms because of their size and culture etc. However, audit firms should still assess their internal control systems to ascertain whether they address the objectives for all key control areas.

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#### A2.3 *Selection of audit engagements to be reviewed*

The number of audit engagement files to be reviewed will depend upon:

- (a) the number of partners involved in audit engagements in the firms selected; and
- (b) the degree of reliance placed, if any, on general quality controls.

The population from which files are selected for review shall be audits completed at least six (6) months preceding the date of the notification letter but not earlier than eighteen (18) months prior to the selection date.

#### A2.4 *Review of Files*

The reviewer shall adopt an approach to ensure that the firm subjected to the review has adhered to professional standards, legal and regulatory requirements in the review of audit engagement files.

#### A2.5 *Closing Meeting*

At the end of the review, the factual findings will be communicated to the sole proprietor or partner of the audit firm being reviewed. During the closing meeting, the sole proprietor or partner has the opportunity to make representations on the audit work performed, and make suggestions and recommendations in relation to the findings made by the reviewer.

At this closing meeting, the reviewer will discuss the significant review findings with the practitioner. However, the discussion may not be exhaustive and consequently certain findings and observations not deliberated upon at the closing meeting may be incorporated in the draft report to be sent later to the practitioner for his/her comments. The reviewer and sole proprietor or partner will sign off on the summary of review findings to confirm on the accuracy of the factual findings of the review. Refusal to sign off on the summary of review findings, without a valid reason, would be considered as non-cooperation and deemed to be unprofessional conduct. A complaint shall be lodged with the Registrar.

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#### A3. Reporting

The reviewer will prepare a report to the Practice Review Committee (the practice review report), incorporating the factual findings as discussed with the audit firm. After review by the Head of Practice Review of the Institute, a dated draft of the reviewer's report will be sent to the audit firm for comments.

Any comments on the dated draft report made must be submitted in writing within twenty-one (21) days. The reviewer will finalise the report upon the receipt of the submissions. In finalising the report, the reviewer may make changes to the practice review report in light of the submissions. Final draft practice review report will be sent to the Practice Review Committee for consideration.

The audit firm will be allowed the opportunity to make its representations throughout the review process. It is expected that the closing meeting between the reviewer and the firm will provide an appropriate channel for the communication of views concerning the findings and recommendations. In addition, the audit firm has twenty-one (21) days to consider the dated draft report and make its written comments to the Practice Review Committee.

A meeting of the Practice Review Committee will be held to consider the practice review report and the audit firm's comments. The Practice Review Committee may issue a final report to the audit firm and instruct the reviewer to perform any follow-up action considered appropriate.

The final report can be rated as follows:

##### (a) Type 1 – Satisfactory

Such report may contain recommendations on application or observance of professional standards. The audit firm may exercise its discretion in considering the course of action to be taken. The Institute will not perform any follow-up procedures to ensure changes are made.

##### (b) Type 2 – Assurance on Compliance Required

A variation to the type of report as mentioned in (a) above is issued where the audit firm is found to have demonstrated some significant weaknesses in certain areas of the work for the engagements reviewed which are considered material enough to bring to the attention of the audit firm. The said audit firm should take all necessary actions (including implementing new procedures) to improve the quality of its work. A confirmation is required to be furnished to the Institute within three (3) months after the date of the final report, to declare that the necessary improvements have been implemented.

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#### (c) Type 3 – Remedial Action Plan Required

Where an audit firm has failed to comply with applicable professional standards, or legal and regulatory requirements during the performance of its work for the engagements reviewed. In such case, the practitioner is required to draw up a remedial action plan within one (1) month after the date of the final report. The Practice Review Committee may require the practitioner(s) concerned to attend relevant training and educational seminars, if necessary. Where the monitoring review shows that the audit firm has failed to implement the remedial action plan, the Practice Review Committee shall lodge a complaint with the Registrar.

#### (d) Type 4 – Unsatisfactory

In such of the following situations, where:

- (i) an audit firm has committed an offence or a breach against the laws and regulations of the country and the Institute's regulations; or
- (ii) the basis needed to form the opinions expressed on the engagements reviewed was not supported for reasons, *inter alia*,
  - the member failed to produce audit working files for his/her audit engagement (firms engaging in essentially no audit at all);
  - inadequate manpower to cater to the volume of audit services engaged or no evidence of involvement in the review performed by engagement partner;
  - engaging non-member firms to perform the audit work who are not within the control and supervision of the audit firms.

*(The word "inter alia" is meant to be non-exhaustive and can include any other findings that could come after an investigation)*

a complaint shall be lodged with the Registrar.

**Appendix VI was amended on 23 February 2017;  
effective 1 July 2017**

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#### VII. List of Business Structures for Section 570

Pursuant to paragraph 570.2, member firms and professional accountants may act as reporting accountants or auditors and report on prospective financial information for the following business structures and post-listing transactions for inclusion in documents for public circulation:

1. Real Estate Investment Trusts ("Business Structure 1");
2. Infrastructure Project Companies ("Business Structure 2");
3. Business Trust having assets with similar characteristics of Business Structures 1 or 2;  
and
4. Post-listing transactions involving the acquisition of assets with similar characteristics of Business Structures 1 or 2.

**Appendix VII was inserted on 17 June 2016;  
effective 1 July 2016.**

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