

Professional accountants in public practice (Part B)

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Section 200 Introduction

200.1 This Part of this Code illustrates how the conceptual framework contained in Part A is to be applied by professional accountants in public practice*. The examples in the following Sections are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant in public practice* that may create threats to compliance with the principles. Consequently, it is not sufficient for a professional accountant in public practice* merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances faced.

200.2 A professional accountant in public practice* should not 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 rendering of professional services*.

Fundamental Principles

200.2A *Professional accountants are required to comply with the following fundamental principles:*

* See Definitions

(a) Integrity

Professional accountants should be straightforward and honest in all professional and business relationships.*

(b) Objectivity

Professional accountants should not allow bias, conflict of interest or undue influence of others to override professional or business judgements.*

(c) Professional Competence and Due Care

Professional accountants have a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. Professional accountants* should act diligently and in accordance with applicable technical and professional standards when providing professional services*.*

(d) Confidentiality

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

(e) Professional Behaviour

Professional accountants should comply with relevant laws and regulations and should avoid any action that discredits the profession.*

Threats and Safeguards

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

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

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

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

* See Definitions

200.4 Examples of circumstances that may create self-interest threats for a professional accountant in public practice* include, but are not limited to:

- A financial interest* in a client or jointly holding a financial interest* with a client.
- Undue dependence on total fees from a client.
- Having a close business relationship with a client.
- Concern about the possibility of losing a client.
- Potential employment with a client.
- Contingent fees* relating to an assurance engagement*.
- A loan* to or from an assurance client* or any of its directors or officers.

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

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

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

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

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

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

* See Definitions

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

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

200.9 A professional accountant in public practice* may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorised. In either professional or business relationships, a professional accountant in public practice* should always be on the alert for such circumstances and threats.

200.10 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 100.12 of Part A of this Code.

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. A professional accountant in public practice* should exercise judgement to determine how to best deal with an identified threat. In exercising this judgement a professional accountant in public practice* should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable. 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*.

200.12 Firm-wide safeguards in the work environment may include:

- Leadership of the firm* that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm* that establishes the expectation that members of an assurance team* will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant*, to an acceptable level.

* See Definitions

- For firms* that perform assurance engagements, documented independence* policies regarding the identification of threats to independence*, the evaluation of the significance of these threats and the evaluation and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant*, to an acceptable level.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm* or members of engagement teams* and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners* and engagement teams* with separate reporting lines for the provision of non-assurance services to an assurance client*.
- Policies and procedures to prohibit individuals who are not members of an engagement team* from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's* policies and procedures, including any changes to them, to all partners* and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's* quality control system.
- Advising partners* and professional staff of those assurance clients* and related entities from which they must be independent.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm* any issue relating to compliance with the fundamental principles that concerns them.

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

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

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

* See Definitions

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

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

200.16 *Professional accountants* who are in doubt as to their ethical position may seek advice from the Institute's Ethics Advisory Services by e-mail: ethics@icaew.com or phone +44 (0)1908 248258. Further information on guidance is available in Section 3.1, paragraphs 1.16 to 1.19.*

Section 210 Professional Appointment

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

Client Acceptance

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

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

Further information relating to money laundering legislation and guidance is included in paragraph 210.12.

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

210.4 Appropriate safeguards may include obtaining knowledge and understanding of the client, its owners, managers and those responsible for

* See Definitions

its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.

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

210.6 Acceptance decisions should be periodically reviewed for recurring client engagements.

Engagement Acceptance

210.7 A professional accountant in public practice* should agree 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* should consider 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.

210.8 A professional accountant in public practice* should evaluate the significance of identified threats and, if they are other than clearly insignificant*, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:

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

210.9 When a professional accountant in public practice* intends to rely on the advice or work of an expert, the professional accountant in public practice* should evaluate whether such reliance is warranted. The professional accountant in public practice* should consider factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

210.10 A professional accountant in public practice* who is asked to replace

* See Definitions

another professional accountant in public practice*, or who is considering tendering for an engagement currently held by another professional accountant in public practice*, should determine whether there are any reasons, professional or other, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. 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.

The Institute is of the view that upon being asked to accept an appointment, professional accountants should undertake the same procedures with all accountants and should consider whether they should be applied when replacing other professional advisers.*

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

The Institute is of the view that there are unlikely to be any circumstances where, having been asked to accept an appointment, the professional accountant in public practice should not at least seek to contact the existing accountant*. The appropriate procedures are considered further in the Appendix to this Section.*

210.12 An existing accountant* is bound by confidentiality. The extent to which the professional accountant in public practice* can and should 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.

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

- *The prospective accountant should not specifically enquire whether the existing accountant* has reported suspicions of money laundering or terrorism. Such questions place the existing accountant* in a difficult position and are likely not to be answered. In addition, the prospective accountant should not ask the existing accountant* whether client identification or 'knowing*

* See Definitions

your client' procedures have been carried out under anti-money laundering legislation. The prospective accountant has responsibility for obtaining information for client identification and 'knowing your client' and this cannot be delegated to the existing accountant.*

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

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

210.13 In the absence of specific instructions by the client, an existing accountant* should not ordinarily volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of this Code.

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

210.15 Such safeguards may include:

- Discussing the client's affairs fully and freely with the existing accountant*;
- Asking the existing accountant* to provide known information on any facts or circumstances, that, in the existing accountant's* opinion, the proposed accountant should be aware of before deciding whether to accept the engagement.

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

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

- *Only what is sincerely believed to be true is stated; and*
- *Reckless imputations are not made against a client or connected individuals for which there can be no reason to believe they are true.*

210.16 A professional accountant in public practice* will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion

* See Definitions

with an existing accountant*. Once that permission is obtained, the existing accountant* should comply with relevant legal and other regulations governing such requests. Where the existing accountant* provides information, it should be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing accountant*, the proposed accountant should 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.

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

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

210.18 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 give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include notifying the existing accountant* of the proposed work, which would give the existing accountant* the opportunity to provide any relevant information needed for the proper conduct of the work.

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

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

Transfer of Records

210.20 *An existing accountant* should deal promptly with any reasonable request for the transfer of records and may have the right of particular lien if there are unpaid fees (see Section 240 of this Code and Section 9.4,*

* See Definitions

'Documents and records: ownership, lien and right of access' in the Members' Handbook (www.icaew.com/membershandbook)). Professional accountants should be aware that the courts have held that no lien can exist over books or documents of a registered company which, either by statute or by articles of association of the company, have to be available for public inspection (see Section 9.4, 'Documents and records: ownership, lien and rights of access' in the Members' Handbook (www.icaew.com/membershandbook)). It may be necessary for professional accountants* to obtain legal advice prior to the exercise of a lien.*

If the existing accountant has fees outstanding from a client they are entitled to mention this to the potential successor. However, if this is as a result of genuine reservations by the client this may not be a reason to withhold cooperation with a successor. It may be useful to consider the section on fee disputes in Section 2.8, 'Duty on firms to investigate complaints – guidance on how to handle or avoid them' in the Members' Handbook (www.icaew.com/membershandbook).*

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

210.22 *Attention is drawn to Chapter 3 of the Audit Regulations and Guidance relating to access to all relevant information held by the existing accounting in respect of the last audit report and Technical Release AAF 01/08 Access to Information by Successor Auditors.*

Appendix to Section 210 – Changes in Professional Appointments Procedures

Prospective Accountants

1 *In the majority of cases, the appropriate procedures for any professional accountant* who is invited to act in succession to another, whether the changeover is at the insistence of the client or of the existing accountant*, is to:*

- *Explain to the prospective client that there is a professional duty to communicate with the existing accountant*; and*
- *Request the client (i) to confirm the proposed change in accountant to the existing accountant* and (ii) to authorise the existing accountant* to co-operate with the prospective accountant; and*
- *Write to the existing accountant* regarding the prospective involvement with the client and request disclosure of any issue or circumstance which might be relevant to the successor's decision to accept or decline the appointment (making oral enquiry if no written reply is forthcoming).*

* See Definitions

2 When these procedural steps have been taken, the prospective accountant should consider, in light of the information received from the existing accountant, or any other factors, including conclusions reached following discussion with the client, whether:*

- *To accept the engagement, or*
- *Accept it only after having addressed any factors arising from the information received from the existing accountant* (this may include imposing conditions on acceptance), or*
- *Decline it.*

3 The prospective accountant should ordinarily treat in confidence any information provided by the existing accountant, unless it is needed to be disclosed to perform the role required (such as making investigations into matters which need the perspective of the client's officers or senior employees).*

4 In circumstances where the enquiries referred to above are not answered, the prospective accountant should write to the existing accountant by recorded delivery service stating an intention to accept the engagement in the absence of a reply within a specific and reasonable period. The prospective accountant is entitled to assume that the existing accountant's* silence implies there was no adverse comment to be made, although this does not obviate the requirement in 210.11 to consider all appropriate circumstances.*

5 A professional accountant which is nominated as a joint auditor should communicate with all existing auditors and be guided by similar principles to those set out in relation to nomination as an auditor. Where it is proposed that a joint audit appointment becomes a sole appointment, the surviving auditor should communicate formally with the other joint auditor as though for a new appointment.*

6 A professional accountant invited to accept nomination on the death of a sole practitioner should endeavour to obtain such information as may be needed from the latter's alternate (where appropriate), the administrators of the estate, or other source.*

7 If the prospective accountant accepts the engagement, the prospective accountant should comply with the relevant legal and regulatory requirements as indicated in paragraph 13.

Existing Accountants*

8 The appropriate procedure for any professional accountant who receives any communication in terms of the above paragraphs, whether or not the professional accountant* is still in office, is to:*

- *Answer promptly any communication from the potential successor about the client's affairs; and*

* See Definitions

- *Confirm whether there are any matters about those affairs which the prospective accountant ought to know, explaining them meaningfully, or confirm there are no such matters.*

9 *If the existing accountant* has made one or more suspicious activity reports relating to money laundering or terrorism, the existing accountant* should not disclose that fact to the prospective accountant, or make other disclosures that could amount to tipping off. However, the existing accountant's* legal and professional obligations remain. In order to meet these obligations, the existing accountant* can undertake one or more of the following actions:*

- *Contacting the relevant investigating authority, for example, the Serious Organised Crime Agency (SOCA), to ascertain if appropriate wording can be agreed in a communication;*
- *Include a factual reference to the irregularities; (further discussion is included in the Institute's Ethics Advisory Services Helpsheets on Changes in Professional Appointments);*
- *Consider seeking legal advice.*

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

10 *The above actions are also relevant when the existing accountant* is preparing the required statement of circumstances in accordance with Section 51 of the Companies Act 2006, or other similar statutory provisions, of matters connected with ceasing to hold office which, the auditor believes, should be brought to the notice of the professional accountants*, shareholders or creditors of the client or under the relevant professional and other regulatory bodies. Further guidance can be found in Chapter 3 of the 2008 Audit Regulations and Guidance.*

11 *It is best practice for the prospective accountant and the existing accountant* to record in writing such discussions as are referred to in the paragraphs above.*

12 *Where the professional accountant* decides to accept nomination¹ appointment having been given notice of any matters which are the subject of contention between the existing accountant* and the client, the professional accountant* should be prepared, if requested to do so, to demonstrate to the professional and regulatory investigating authorities that proper consideration has been given to those matters and the relevant legal, regulatory and ethical requirements have been met.*

Further Information

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

* See Definitions

- *Chapter 3 of the 2008 Audit Regulations and Guidance, in particular technical standards relating to changes in professional appointments and access to relevant information relating to the signed audit report.*
- *ISQC (UK & Ireland) – quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements (www.frc.org.uk/apbl/publications).*
- *Statement of Auditing Standards (www.frc.org.uk/apbl/publications):*
 - *ISA 240 (UK and Ireland) – The auditor's responsibility to consider fraud in an audit of financial statements;*
 - *ISA 250 (UK and Ireland) – Consideration of laws and regulations in an audit of financial statements;*
 - *ISA 510 (UK and Ireland) Initial engagements – opening balances and continuing engagements – opening balances.*
- *Practice Note 12 (Revised) 'Money laundering' (www.frc.org.uk/apbl/publications).*
- *Section 9.5 – Anti-money laundering for the Accountancy Sector in the Members' Handbook (www.icaew.com/membershandbook).*
- *Technical Release 02/06 – 'Guidance on changes to the money laundering reporting requirements: the exemption from reporting knowledge or suspicion of money laundering formed in privileged circumstances' (www.icaew.com/technical).*
- *Helpsheet 5 – Changes in professional appointments (www.icaew.com/ethicsadvice).*

Section 220 Conflicts of Interest

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

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

220.2 A professional accountant in public practice* should evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether the professional accountant in public practice* has any business interests, or

* See Definitions

relationships with the client or a third party that could give rise to threats. If threats are other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

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

Safeguards

220.3 Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily include the professional accountant in public practice*:

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

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

220.4 The following additional safeguards should also be considered:

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

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

* See Definitions

- *Ensuring that there is, and continues to be, no overlap between the teams servicing the relevant clients and that each has separate internal reporting lines;*
- *Physically separating, and restricting access to, departments providing different professional services*, or creating such divisions within departments if necessary, so that confidential information about one client is not accessible by anyone providing services to another client where their interests conflict;*
- *Setting strict and carefully defined procedures for dealing with any apparent need to disseminate information beyond a barrier and for maintaining proper records where this occurs.*

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

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

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

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

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

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

* See Definitions

Section 221 Corporate Finance Advice

(Issued as Statement 1.203 October 2002: reformatted and updated as regards to changes in legislation as at 1 August 2006)

Introduction

221.0 *The nature of corporate finance activities is so wide ranging that all the threats to objectivity and conflicts of interest identified respectively in Section 200 and Section 220 can arise when professional accountants* provide corporate finance advice.*

Categories of Corporate Finance Activity

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

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

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

General Principles applicable to all Professional Accountants*

Statutory and Other Regulatory Requirements

221.3 *Professional accountants* must be aware of and comply with current legislative and regulatory measures and professional guidance governing corporate finance assignments. As a guide, a list of legislative and regulatory measures current at 1 August 2006 is given in Appendix 1 to this Section but professional accountants* should ensure that they are aware of the most up-to-date legislative and regulatory requirements.*

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

221.5 *Professional accountants* proposing to provide corporate finance advice to a client or his employer should at the outset draw attention to the legislative and regulatory responsibilities which will apply to the client or his employer. The professional accountant* should make clear to the client or his employer that, where necessary, legal advice should be taken. The professional accountant* should also draw attention to his own responsibilities under professional ethical guidance.*

* See Definitions

Acquisition Searches

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

Interests of Shareholders and Owners

221.7 *Professional accountants* should remain aware when giving advice that they should have regard to the interests of all shareholders and owners unless they are specifically acting for a single or defined group thereof. This is particularly so when advising on a proposal which is stated to be agreed by directors and/or majority shareholders or owners.*

Preparation of Documents

221.8 *Any document should be prepared in accordance with normal professional standards of integrity and objectivity and with a proper degree of care. All statements or observations therein must be capable, taken individually or as a whole, of being justified on an objective examination of the available facts.*

221.9 *In order to differentiate the roles and responsibilities of the various advisers, professional accountants* should ensure that these roles and responsibilities are clearly described in all public documents and circulars and that each adviser is named.*

221.10 *Professional accountants* intending to comment on published audited accounts should act in accordance with paragraph 221.21 below.*

Overseas Transactions

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

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

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

When advising a non-assurance client there can be no objection to a professional accountant in public practice accepting an engagement which is designed primarily with a view to advancing that client's case, though the professional accountant in public practice* should be aware that the self-interest*

* See Definitions

threat could arise. Where a non-assurance client has received advice over a period of time on a series of related or unrelated transactions it is likely that, additionally, the familiarity or trust threats may exist. But where a professional accountant in public practice advises an assurance client* which is subject to a takeover bid or where a professional accountant in public practice* acts as sponsor or nominated adviser to an assurance client involved in the issue of securities, the self-interest threat will become more acute and the advocacy threat will arise.*

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

221.13 *It may be in the best interests of a company for corporate finance advice to be provided by its auditor and there is nothing improper in the professional accountant in public practice* supporting an assurance client* in this way.*

221.14 *A professional accountant in public practice's* objectivity may be seriously threatened if he should extend his role into management of an assurance client. Co-ordination tasks, such as initiating and organising meetings, issuing timetables and reporting progress, are unlikely to threaten reporting objectivity. When involved in negotiations on behalf of an assurance client, the professional accountant in public practice* should ensure that he does not assume the role of taking decisions for a client which would prejudice reporting objectivity. Accordingly, the professional accountant in public practice* should ensure that the client takes full responsibility for the final decisions arising from any such negotiations.*

Conflict of Interest

221.15 *Professional accountants in public practice* should be aware of the danger of a conflict of interest arising. All reasonable steps should be taken to ascertain whether a conflict of interest exists or is likely to arise in the future between a professional accountant in public practice* and his clients, both with regard to new clients and to the changing circumstances of existing clients, and including any implications arising from the possession of confidential information.*

221.16 *The attention of professional accountants in public practice* is directed to Section 220, 'Conflicts of interest' and to the safeguards indicated in paragraphs 220.3 and 220.4 of that Section. Where there appears to be a conflict of interest between clients but after careful consideration the professional accountant in public practice* believes that either the conflict is not material or is unlikely seriously to prejudice the interests of any of those clients and that its*

* See Definitions

safeguards are sufficient, the professional accountant in public practice may accept or continue the engagement. Unless client confidentiality considerations dictate otherwise it would be advisable, if appropriate, to seek the clients' consent. Considerations that lead to a conclusion to accept or continue the engagement should be explicitly recorded.*

221.17 *Where a professional accountant in public practice* acts or continues to act for two or more clients having obtained consent, if appropriate, in accordance with the previous paragraphs, safeguards will need to be implemented to manage any conflict which arises. The safeguards may include:*

- (a) the use of different partners and teams for different clients, each having separate internal reporting lines;*
- (b) all necessary steps being taken to prevent the leakage of confidential information between different teams and sections within the firm;*
- (c) regular review of the situation by a senior partner or compliance officer not personally involved with either client; and*
- (d) advising the clients to seek additional independent advice, where it is appropriate.*

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

221.18 *Where a conflict of interest is so fundamental that it cannot be managed effectively by the implementation of appropriate safeguards and is likely seriously to prejudice the interests of a client, the engagement should not be accepted or continued even if all relevant clients consent to the engagement.*

221.19 *Where a professional accountant in public practice* is required for any reason to disengage from an existing client, the professional accountant in public practice* should do so as speedily as practicable having regard to the interest of the client.*

Documents for Client and Public Use

221.20 *In the case of a document prepared solely for the client and its professional advisers, it should be a condition of the engagement that the document should not be disclosed to any third party without the firm's prior written consent.*

221.21 *A professional accountant in public practice* is, in the absence of any indication to the contrary, entitled to assume that a company's published financial information that has been reported on by a professional accountant in public practice* has been prepared properly and in accordance with all relevant Accounting Standards. If a professional accountant in public practice* is commenting in a public document on such financial information and where*

* See Definitions

scope for alternative accounting treatment exists, and the accuracy of the comment or observation is dependent on an assumption as to the actual accounting treatment chosen, that assumption must be stated, together with any other assumptions material to the commentary. Where the professional accountant in public practice is not in possession of sufficient information to warrant a clear opinion this should be declared in the document.*

221.22 *A professional accountant in public practice* must take responsibility for anything published under his name, provided he consented to such publication, and the published document should make clear the client for whom the professional accountant in public practice* is acting. To prevent misleading or out-of-context quotations, it should be a condition of the engagement that, if anything less than the full document is to be published, the text and its context should be expressly agreed with the professional accountant in public practice*.*

Takeovers and Mergers

City Code Transactions

221.23 *Professional accountants in public practice* are reminded that, if in doubt as to the propriety of any aspect of a City Code transaction with which they are involved, they should consult the Panel on Takeovers and Mergers ('the Takeover Panel'). (See Appendix 2 of this Section).*

221.24 *Where a professional accountant in public practice* finds itself acting as auditor or reporting accountant for two or more parties involved in a transaction subject to the City Code, a perceived conflict of interest may arise. In such circumstances (subject to paragraph 221.26 below) a professional accountant in public practice* may act for more than one party, including both offeror and offeree companies as auditor, as reporting accountants, and in the provision of incidental advice consistent with these roles but must implement adequate safeguards (see paragraph 221.27 above).*

Lead Advisers in City Code Transactions

221.25 *For the purposes of this Section, a 'lead adviser' is the professional accountant in public practice* primarily responsible for advising on, organising and presenting an offer or the response to an offer. This definition would include an 'independent financial adviser' required under Rule 3 of the City Code.*

221.26 *In no circumstances should a professional accountant in public practice* be a lead adviser to more than one party involved in a transaction subject to the City Code. Where a professional accountant in public practice* finds itself acting in an auditor or reporting accountant role for any party involved in a transaction subject to the City Code, the professional accountant in public practice* should not act as lead adviser for any party involved, save in the circumstances set out below in paragraphs 221.27–221.29.*

* See Definitions

221.27 *A professional accountant in public practice* who is auditor to a target company may be requested to act as lead adviser to a bidder on an offer subject to the City Code. Where the bid is hostile, it is likely that the professional accountant in public practice's* objectivity will be perceived to be prejudiced by its possession of material confidential information on the target and it will not therefore be able to advise on the offer. However, if the bid is agreed, the professional accountant in public practice* may be able to act or continue to act as lead adviser to the bidder with the agreement of the target and subject to the prior approval of the Takeover Panel. The professional accountant in public practice* should obtain confirmation from its clients that their interests would not be prejudiced if the professional accountant in public practice* were to act or continue to act in both capacities.*

221.28 *Where a professional accountant in public practice* is acting as lead adviser to a company which is involved in a bid subject to the City Code, conflicts of interest for the professional accountant in public practice* may arise due to an existing relationship with a second or subsequent bidder. Providing that the relationship with the second or subsequent bidder is confined to that of auditor or reporting accountant, and subject to the prior approval of the Takeover Panel, the professional accountant in public practice* may continue to act as lead adviser, providing that it is satisfied that the implementation of safeguards (see paragraph 221.27 above) provides the necessary level of protection to each of the clients involved.*

221.29 *Where a professional accountant in public practice* is requested to act as lead adviser to a target company in relation to a bid which is subject to the City Code from a company which is an existing assurance client, it may act as lead adviser to the target company only with the prior approval of the Takeover Panel.*

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

Transactions not Subject to the City Code

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

* See Definitions

Underwriting and Marketing of Shares

221.31 *A professional accountant in public practice* should not underwrite or market an issue or sale to the public of shares or securities of a company on which he has reported within the last two years or is to report as auditor or as reporting accountant. Nor should the professional accountant in public practice* undertake to accept nomination as auditor or reporting accountant of a company whose shares he is underwriting or marketing. Involvement of this kind would give rise to an advocacy threat, self-review threat and self-interest threat such that the professional accountant in public practice's* objectivity in the auditor and/or reporting accountant function would be endangered.*

221.32 *It may be appropriate:*

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

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

Sponsors and Nominated Advisers

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

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

* See Definitions

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

Appendix 1 to Section 221 – Corporate Finance Advice

Information on Statutory and Other Regulatory and Professional Requirements
For the assistance of professional accountants a list of the relevant legislative and regulatory measures and professional guidance is set out below. This reflects the position as at **1 August 2006**. Professional accountants* should be aware that this list may be subject to variation in the future and when undertaking corporate finance assignments professional accountants* should ensure they are aware of the current status of the list.*

- 1** *The Financial Services and Markets Act 2000, the Companies Act 1985 as amended, Part V of the Criminal Justice Act 1993 and, where applicable, the requirements of the Financial Services Authority's Handbook (<http://www.fsa.gov.uk/Pages/handbook/>) or the Institute's Designated Professional Body Handbook (www.icaew.comldpb);*
- 2** *The City Code on Takeovers and Mergers (the 'City Code');*
- 3** *The Financial Services Authority Handbook Listing, Prospectus and Disclosure Rules and the London Stock Exchange Alternative Investment Market (AIM) Rules;*
- 4** *The AIM authority's Nominated Adviser Eligibility Criteria;*
- 5** *The Admission and Disclosure Standards of the London Stock Exchange;*
- 6** *The Auditing Practices Board's Ethical Standards, in particular ES 5 Non-Audit Services Provided to Audit Clients (www.frc.org.uk/lapb/publications.);*

And in the Republic of Ireland:

* See Definitions

7 *Investment Intermediaries Act, 1995 as amended by the Investor Compensation Act, 1998 and the Insurance Act, 2000 ('IIA'), and where applicable the requirements of the Central Bank of Ireland's Rule Book or the Institute's Investment Business Regulations and Guidance;*

8 *Irish Takeover Panel Act, 1997;*

9 *The Listing Rules of the Irish Stock Exchange: the IEX Rules;*

10 *Code of Conduct issued by the Central Bank of Ireland under Section 37 of the IIA, as amended by S. 30 of the Insurance Act 2000;*

11 *European Communities (Takeover Bids (Directive 2004/25/EC) Regulations 2006 (RoI);*

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

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

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

Appendix 2 to Section 221 – Corporate Finance Advice

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

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

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

Specimen Clause for Engagement Letters

3 *The client agrees and acknowledges that where the services provided by the professional accountant in public practice* relate to a transaction within the scope of the City Code on Takeovers and Mergers ('the City Code'), the client and the professional accountant in public practice* will comply with the provisions of the City Code and will observe the terms of the Guidance Note published by the*

* See Definitions

Institutes of Chartered Accountants relevant to such services or transactions. In particular, the client acknowledges that:

- (a) if the client or its advisers or agents fail to comply with the City Code then the professional accountant in public practice* may withdraw from acting for the client; and*
- (b) the professional accountant in public practice* is obliged to supply to the Takeover Panel any information, books, documents or other records concerning the services or transaction which the Takeover Panel may require.*

Scope of Takeover Services

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

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

- (a) acting as financial adviser to one of the parties (for example, as 'Rule 3 adviser' to the offeree company);*
- (b) reporting on profit forecasts and/or valuations for the purposes of takeover documents;*
- (c) approving financial promotions issued in connection with a takeover transaction for the purposes of s. 21 of the Financial Services and Markets Act 2000;*
- (d) conducting acquisition searches for clients, and introducing clients to other parties with a view to effecting transactions; and*
- (e) advising in relation to acquisitions and disposals of securities of companies which are subject to City Code.*

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

Special Responsibilities

7 *A professional accountant in public practice* who has provided or is providing takeover services to a client should:*

- (a) supply to the Takeover Panel any information, books, documents or other records concerning the relevant transaction or arrangement which the Takeover Panel may properly require and which are in the possession or under the control of the professional accountant in public practice*; and*
- (b) otherwise render all such assistance as the professional accountant in public practice* is reasonably able to give to the Takeover Panel, provided that in each case the relevant information, books, documents or other records were acquired by the professional accountant in public practice* in the course of providing the relevant takeover services.*

* See Definitions

8 *Except with the consent of the Takeover Panel, a professional accountant in public practice* should not provide or continue to provide any takeover services to any person if the Takeover Panel has stated that it considers that such a person is not likely to comply with the standards of conduct for the time being expected in the United Kingdom concerning the practices of those involved in takeovers, mergers or substantial acquisitions of shares and the Takeover Panel has not subsequently indicated a change in this view. A person to whom this paragraph applies will normally have been named in a statement published by the Takeover Panel, inter alia, for the purposes of Rule 4.3.1 of the Financial Services Authority's Handbook on Market Conduct.*

9 *If professional accountants in public practice* have included in the engagement letter agreed with the client a provision as outlined in paragraph 3 above, they will be able to discharge their responsibilities under paragraph 7 and/or 8 above, without any breach of confidentiality or duty to the client. While professional accountants in public practice* should include such a provision, it is recognised that, on occasion, compliance with such responsibilities may still involve a breach of confidentiality to a third party or a breach of some other duty owed to the client. In such circumstances this Appendix is not applicable.*

The Financial Services and Markets Act 2000

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

Appendix 3 to Section 221 – Corporate Finance Advice

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

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

	<i>Bid Situation</i>	<i>Target</i>	<i>Bidder</i>	<i>Subsequent Bidder</i>	<i>Comments</i>
<i>A</i>	<i>Agreed – relationship with one bidder</i>	<i>Ass</i>	<i>Ass</i>	<i>–</i>	<i>Permitted – paragraph 221.24</i>
<i>B</i>		<i>Adv</i>	<i>Ass</i>	<i>–</i>	<i>Permitted by agreement with the Takeover Panel – see paragraph 221.29</i>

* See Definitions

<i>C</i>		<i>Ass</i>	<i>Adv</i>	–	<i>Permitted with conditions – see paragraph 221.27</i>
<i>D</i>		<i>Adv</i>	<i>Adv</i>	–	<i>Prohibited – see paragraph 221.26</i>
<i>E</i>	<i>Hostile – one bidder</i>	<i>Ass</i>	<i>Ass</i>	–	<i>Permitted with conditions – see paragraph 221.24</i>
<i>F</i>		<i>Adv</i>	<i>Ass</i>	–	<i>Permitted by agreement with the Takeover Panel – see paragraph 221.29</i>
<i>G</i>		<i>Ass</i>	<i>Adv</i>	–	<i>Prohibited – see paragraph 221.26 and 221.27</i>
<i>H</i>		<i>Adv</i>	<i>Adv</i>	–	<i>Prohibited – see paragraph 221.26</i>
<i>I</i>	<i>Subsequent bidder emerges</i>	<i>Ass</i>	<i>Ass</i>	<i>Ass</i>	<i>Permitted – see paragraph 221.24</i>
<i>J</i>		<i>Ass</i>	–	<i>Ass</i>	<i>Permitted – see paragraph 221.24</i>
<i>K</i>		<i>Adv</i>	–	<i>Ass</i>	<i>Permitted – see paragraph 221.28</i>
<i>L</i>		<i>Ass</i>	–	<i>Adv</i>	<i>Prohibited – see paragraph 221.26</i>
<i>M</i>		<i>Adv</i>	–	<i>Adv</i>	<i>Prohibited – see paragraph 221.26</i>
<i>N</i>	<i>Acting for rival bidders</i>	–	<i>Ass</i>	<i>Ass</i>	<i>Permitted – see paragraph 221.24</i>
<i>O</i>		–	<i>Adv</i>	<i>Ass</i>	<i>Permitted – see paragraph 221.28</i>
<i>P</i>		–	<i>Ass</i>	<i>Adv</i>	<i>Prohibited – see paragraph 221.26</i>
<i>Q</i>		–	<i>Adv</i>	<i>Adv</i>	<i>Prohibited – see paragraph 221.26</i>

In all of the above cases where a professional accountant in public practice may be permitted to act for more than one party, professional accountants in public practice* must*

* See Definitions

consider the potential threats and put in place the appropriate safeguards as set out in paragraph 221.33. Furthermore, where stated, permission for the professional accountant in public practice to act for more than one party should be obtained from the Takeover Panel.*

Key

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

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

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

Notes

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

Section 230 Second Opinions

230.0 *Opinions expressed informally by a professional accountant* may be acted on, and professional accountants* should bear in mind the potential consequences of those opinions. Oral opinions should as a matter of good practice, because of legal implications, be confirmed in writing as soon as practicable after giving the opinion. If a professional accountant* is asked for a 'general opinion' (one relative to a hypothetical situation not related to specific entities or circumstances), whether written or oral, the professional accountant* should ensure that the recipient of the opinion understands that it has been given in the context of that particular hypothetical situation only.*

230.1 *Situations where a professional accountant in public practice* is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant*, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgement.*

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

* See Definitions

230.2 When asked to provide such an opinion, a professional accountant in public practice* should evaluate the significance of the threats and, if they are other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may 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.

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

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

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

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

Section 240 Fees and Other Types of Remuneration

240.0 *The Institute does not set charge-out rates or otherwise prescribe the basis for calculating fees, nor does it ordinarily investigate complaints relating solely to the quantum of fees charged. However, professional accountants in public practice* have certain professional responsibilities in relation to fees as set out in the following paragraphs.*

240.1 When entering into negotiations regarding professional services*, a professional accountant in public practice* may quote whatever fee deemed to be 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.

* See Definitions

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

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

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

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

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

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

240.2D *In the event of a complaint being made to the Institute where fees were a feature in obtaining or retaining the work, professional accountants in public practice* should be prepared to demonstrate that:*

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

* See Definitions

Contingent Fees*

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

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

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

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

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

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

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

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

240.4C *Due diligence* assignments, particularly those performed in relation to a prospective transaction, typically involve a high level of risk and responsibility. A higher fee may be charged for such work in respect of a completed transaction*

* See Definitions

¹ Contingent fees* for non-assurance services provided to assurance clients* are discussed in Section 290 of this part of this Code.

than for the same transaction if it is not completed, for whatever reason, provided that the difference reflects any additional risk and responsibility.

Fee Information and Disputes

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

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

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

240.4G *Overdue fees may give rise to a perceived or real self-interest threat. They may be regarded as a loan made to a client (see Section 280). Similar considerations apply to work-in-progress for a client if billing is unduly deferred.*

Referrals and Commissions

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

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

* See Definitions

240.7 A professional accountant in public practice* should not pay or receive a referral fee or commission, unless the professional accountant in public practice* has established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:

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

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

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

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

- (a) *Account to the client for the commission or other benefit*
This could be effected:
 - *By payment of the whole commission or benefit to the client, or*
 - *By deducting the amount received from the fees otherwise chargeable to the client and by showing such deduction on the face of the bill.*
- (b) *Obtain the client's advance consent to each receipt of commission*
This involves obtaining consent before the commission is received and the firm must disclose, in advance, the actual amount of the commission (or its basis of calculation) and the terms and timing of its payment.*
- (c) *Obtain the client's advance general consent to the member's* retaining commission.*

* See Definitions

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

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

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

Note:

- i. *Before the client agrees to any such provision, examples must be given of likely commissions that may be received and the likely amounts, and it should be emphasised that these are only examples and may not cover all receipts in the future. If, in the future, abnormally large commissions are received which were not envisaged when the engagement letter was signed, it would be advisable to obtain specific consent to the retention of those commissions in order to meet any assertion that retention of such commission was not authorised by the engagement letter.*
- ii. *Any further provision which indicated likely levels of commission, and then continued 'Commissions of less than £X will be retained by us, and commissions of more than £X will be divided equally between yourselves and ourselves' might be effective. Members* are advised, however, to consult with their lawyers before including such a provision.*
- iii. *Where an existing client of the member* is to sign a new engagement letter containing such a provision as is referred to above, the firm* should explain that, in the absence of the signed engagement letter, the firm* could retain the commission only if the client gave full and informed consent on each occasion after receiving full disclosure of the amount involved, whereas, once the letter is signed, the firm* can keep the commission.*

(d) Obtain the client's subsequent consent

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

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

* See Definitions

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

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

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

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

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

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

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

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

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

* See Definitions

Section 241 Agencies and Referrals

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

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

Duty of Care

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

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

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

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

* See Definitions

- *The scope of enquiry and whether a referral fee is contemplated, as considered in Section 240.*
- *The enquirer's expectations.*

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

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

- *Can take account of the professional or regulatory status of the prospective referee;*
- *Is not normally expected to have to make additional enquiries about the prospective referee and can make the assessment based on what is already known.*

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

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

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

- *Consider any factors they are aware of that would indicate the proposed third party is not fit for purpose in terms of the potential engagement. The*

* See Definitions

professional accountant in public practice should take into account what a reasonable person might expect a Chartered Accountant to know;*

- *Make clients (or enquirers) that are proposed to be referred, aware of limitations in knowledge;*
- *Disclose any referral arrangement;*
- *Ensure that any contractual arrangement does not override the needs of an individual client.*

Establishing Agencies

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

241.10 *This Section addresses agreements that in effect provide for permanent arrangements for referrals. The issues are considered to be similar to those above for referrals in general except that an agency contract will usually bind the agent in terms of who it can refer to for particular types of work. When professional accountants in public practice* are considering the establishment of an agency, it is important that the terms of the agency contract (actual or implied) should not require exclusive referral of all clients regardless of suitability. For example, a professional accountant in public practice* should not be party to an agency by which it is constrained to channel all funds received by it for investment into a single bank/building society. Such a clause would make important safeguards inoperable.*

241.11 *Before accepting appointment as auditor of another entity of which they are an agent, professional accountants in public practice* should consider whether the agency constitutes a material business relationship. See Section 290, 'Independence – assurance engagements.'*

241.12 *Professional accountants in public practice* should not, because of the self-interest threat, enter into any financial arrangements with another supplier either personally or through their firm* which would prejudice the objectivity of themselves or their firm*.*

241.13 *Before accepting or continuing an agency with another supplier, professional accountants in public practice* should satisfy themselves that their ability to discharge their professional obligations to their clients is not compromised.*

241.14 *A professional accountant in public practice* should not in any circumstances conduct its practice in such a manner as to give the impression that it is a principal* rather than an agent. This would include considering signs on premises and any other outward signs or literature used. This would relate in particular to agencies with entities such as banks and building societies, where confusion as to status can arise (see also Section 9.3, 'The names and letterheads of practising firms' in the Members' Handbook (www.icaew.com/membershandbook)).*

* See Definitions

241.15 *Firms* in the Republic of Ireland must be authorised under the Investment Intermediaries Act, 1995 to hold an agency with a building society and that arrangement should relate solely to deposit taking and not for example relate to products of a particular insurance company or unit trust organisation for which the building society is an appointed representative. Firms* holding building society agencies must ensure that their agency agreement contains no obligation which would cause or would be perceived to cause, them to breach the provisions of either the Act or the Institute of Chartered Accountants in Ireland's Investment Business Regulations and Guidance. Firms* cannot hold agencies with banks.*

Investment Business Agencies and Introductions

241.16 *When considering referrals of investment business ('introductions') or the establishment of investment business agencies, professional accountants in public practice* should apply the general principles and requirements set out in the previous Sections. However, they will also need to consider:*

- *Whether the introduction or agency is permitted by regulation; and*
- *Whether the status of the third party investment business provider is compatible with the requirement to give objective advice.*

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

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

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

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

* See Definitions

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

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

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

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

Status of Investment Business Providers

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

<i>Type of firm</i>	<i>What the firm can recommend</i>	<i>Can there generally be introductions to this type of firm?</i>
<ul style="list-style-type: none"> ● <i>Independent</i> 	<i>Recommend products from the whole market and offer clients the ability to pay by fee. Only these firms* can describe themselves as independent financial advisers. The client may be able to elect for the adviser to be paid by commission.</i>	<i>Yes (241.24 below)</i>
<ul style="list-style-type: none"> ● <i>Whole of market (UK only)</i> 	<i>Recommend products from the whole market but do not offer clients the ability to pay by fee. The firm is remunerated by commission.</i>	<i>Yes (241.25 below)</i>
<ul style="list-style-type: none"> ● <i>Multi-tied</i> ● <i>(Multi-agency in RoI)</i> 	<i>Recommend the products of more than one product provider with whom the firm has agreements, but recommends on less than the whole market.</i>	<i>Depends on scope of choice (241.26 below)</i>
<ul style="list-style-type: none"> ● <i>Tied</i> 	<i>Recommend the products of one product provider.</i>	<i>No (241.27 below)</i>

* See Definitions

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

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

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

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

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

Section 250 Marketing Professional Services*

250.1 When a professional accountant in public practice* solicits new work through advertising* or other forms of marketing, there may be potential threats to compliance with the fundamental principles. For example, a self-

* See Definitions

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

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

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

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

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

If the professional accountant in public practice* is in doubt whether a proposed form of advertising* or marketing is appropriate, the professional accountant in public practice* should consult with the *Institute*.

250.3 A professional accountant in public practice* should ensure that all advertisements, including in letterheads, invoices and other practice documents, comply with the law and should conform with the requirements of the relevant Advertising Standards Authority (for example, the British Code of Advertising) notably, as to legality, decency, clarity, honesty and truthfulness.

250.4 *If reference is made in promotional material to fees, the basis on which the fees are calculated, or to hourly or other charging rates, the greatest care should be taken to ensure that such reference does not mislead as to the precise range of services and the time commitment that the reference is intended to cover. Professional accountants in public practice* are unlikely to be able to comply with the requirements of 250.2 if making a comparison in such material between their fees and the fees of another accounting practice, whether members* or not. A professional accountant in public practice* may offer a free consultation at which fees are discussed.*

* See Definitions

250.5 *Professional accountants in public practice* should never promote or seek to promote their services, or the services of other professional accountants in public practice*, in such a way, or to such an extent, as to amount to harassment of a potential client.*

It should be noted that special rules apply in relation to the conduct of Insolvency Practice and licensed practitioners should have regard to the relevant legislation and to Part D. Similarly professional accountants in public practice whose firm* is registered for the conduct of investment business should have recourse to the relevant Investment Business Regulations.*

250.6 *Further guidance on marketing professional services* is available to members in a helpsheet from the Ethics Advisory Services (www.icaew.com/ethicsadvice). See also Sections 210, 'Professional appointment' and 230, 'Second opinions'.*

Section 260 Gifts and Hospitality

260.1 A professional accountant in public practice*, or an immediate or close family* member, may be offered gifts and hospitality from a client. Such an offer ordinarily gives rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity may be created if a gift from a client is accepted; intimidation threats to objectivity may result from the possibility of such offers being made public.

260.2 The significance of such threats will depend on the nature, value and intent behind the offer. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider clearly insignificant* are made, 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 there is no significant threat to compliance with the fundamental principles.

260.3 If evaluated threats are other than clearly insignificant*, safeguards should be considered and applied as 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 public practice* should not accept such an offer.

260.4 *Further guidance on dealing with gifts and hospitality in an assurance engagement is available in paragraph 290.213.*

* See Definitions

Section 270 Custody of Client Assets

270.1 A professional accountant in public practice* should not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a professional accountant in public practice* holding such assets.

270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behaviour and may be a self-interest threat to objectivity arising from holding client assets. To safeguard against such threats, a professional accountant in public practice* entrusted with money (or other assets) belonging to others should:

- (a) Keep such assets separately from personal or firm* assets;
- (b) Use such assets only for the purpose for which they are intended;
- (c) At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting; and
- (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

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

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

Further guidance on money laundering regulation and legislation is available in Section 9.5, 'Anti-money laundering guidance for the accountancy sector' in the Members' Handbook, which is available at www.icaew.com/membershandbook.

See also Section 9.4, 'Document and records: ownership, lien and rights of access' in the Members' Handbook (www.icaew.com/membershandbook).

* See Definitions

Section 280 Objectivity – All services

280.1 A professional accountant in public practice* should consider 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 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 is required to 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 provides specific guidance on independence* requirements for professional accountants in public practice* when performing an 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.

In particular objectivity may be subject to self-interest or familiarity threats in the following circumstances.

a) *Family, other personal or business relationships*

Objectivity may be subject to a self-interest threat where a mutual business interest exists with a client or any officer or employee of the client. In such circumstances, safeguards should be applied and adequate disclosure of any conflict of interest should be made to all relevant parties.

Professional accountants in public practice who hold office in a client company or have a comparable business relationship with a client, should be aware of the dangers inherent in seeking to combine such a role with that of business adviser or other professional service having regard to the self-interest threat to their objectivity. In such circumstances, professional accountants in public practice* should be aware of the distinctive nature of each of the roles in which they are professionally engaged, and employ safeguards, including disclosure where appropriate.*

b) *Loans**

Objectivity may be subject to a self-interest threat if a firm, or any principal* of the firm* should directly or indirectly make a loan* to, or receive a loan* from the client, or give or accept any guarantee in relation to a debt of the client, firm* or principal*.*

* See Definitions

A firm or principal* in the firm* should not receive from or make a loan* to a client unless the client is a bank or similar institution and the transaction is under normal commercial conditions. This is because the perceived self-interest threat arising in such circumstances is generally seen as being too great to be reduced to an acceptable level by the application of any safeguards.*

c) *Beneficial Interest in Shares* and other Investments*

A self-interest threat to objectivity of a professional accountant in public practice may arise in relation to any investment in a company or undertaking with which there is a professional relationship. The threats should be evaluated and safeguards should be considered and applied as necessary. If the value of the investment is material to the financial circumstances of the professional accountant in public practice*, the threat to independence* cannot be reduced to an acceptable level by the application of any safeguards. Consequently the professional accountant in public practice* should cease to advise professionally or dispose of the interest.*

See also Section 260, 'Gifts and hospitality'.

280.4 A professional accountant in public practice* should evaluate the significance of identified threats and, if they are other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:

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

See also Section 220, 'Conflicts of interest'.

Section 290 Independence – Assurance engagements*

Scope

290.0 *When conducting audit engagements* in the UK and Republic of Ireland, members* should comply with the requirements of the Auditing Practices Board's ('APB's') Ethical Standards³. Before undertaking other assurance engagements* for audit clients, members* should consider the impact of the proposed engagement on the integrity and independence* of the audit, by reference to the APB's Ethical Standards.*

290.0A *When performing audit engagements* in other territories, professional accountants* should comply with the requirements of Section 290 of the IFAC Code of Ethics (www.ifac.org/Store/) in force at the time of the engagement.*

* See Definitions

³ *APB Ethical Standards 1 to 5 and the Provisions Available for Smaller Entities, available at www.frc.org.uk/apb/publications.*

The Auditing Practices Board (APB) has stated, in ISA (UK and Ireland) 200, that it is not aware of any significant instances where the relevant parts of the IFAC Code of Ethics are more restrictive than the Ethical Standards.

290.0B *The remainder of this Section applies to assurance engagements* other than audits. Accordingly, elements of Section 290 of the IFAC Code of Ethics which relate only to audit engagements* have not been reproduced in this Section and paragraph numbering is therefore not sequential.*

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

290.1 In the case of an assurance engagement* it is in the public interest and, therefore, required by this Code of Ethics, that members of assurance teams*, firms* and, when applicable, network firms* be independent of assurance clients*.

Objectivity required in respect of non-assurance engagements is considered in Section 280.*

Other Assurance Engagements*

290.2 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 Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. For a description of the elements and objectives of an assurance engagement*, reference should be made to the Assurance Framework (www.ifac.org/IAASB/).

290.3 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.

290.4 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 subject matter. For example:

* See Definitions

- The recognition, measurement, presentation and disclosure represented in the financial statements* (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards (criteria), to an entity's financial position, financial performance and cash flows (subject matter).
- An assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO⁴ or CoCo⁵ (criteria), to internal control, a process (subject matter).

290.5 Assurance engagements* may be assertion-based or direct reporting. In either case they involve three separate parties: a public accountant in public practice*, a responsible party and intended users.

290.6 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.

290.7 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.

290.8 Independence* requires:

Independence* of Mind

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

Independence* in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's*, integrity, objectivity or professional scepticism had been compromised.

* See Definitions

⁴ A U.S. publication used to conduct an evaluation of an organisation's internal control system.

⁵ A publication from the Canadian Institute of Chartered Accountants which provides advice and guidance on the criteria for control.

290.9 The use of the word ‘independence’* on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgement ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.

290.10 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence* and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements* may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms* and members of assurance teams* to identify, evaluate and address threats to independence*, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

A Conceptual Approach to Independence*

290.11 Members of assurance teams*, firms* and network firms* are required to apply the conceptual framework contained in Section 100 to the particular circumstances under consideration. In addition to identifying relationships between the firm*, network firms*, members of the assurance team* and the assurance client*, consideration should be given to whether relationships between individuals outside of the assurance team* and the assurance client* create threats to independence*.

290.12 The examples presented in this Section are intended to illustrate the application of the conceptual framework and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence*. Consequently, it is not sufficient for a member of an assurance team*, a firm* or a network firm* merely to comply with the examples presented, rather they should apply the framework to the particular circumstances they face.

290.13 The nature of the threats to independence* and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual assurance engagement*, that is, the purpose, subject matter information and intended users of the report. A firm* should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement* and the threats to independence* in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team*.

* See Definitions

Further consideration of the nature of threats and safeguards that may be appropriate is included in Section 200.

Assertion-based Assurance Engagements^{*6}

290.15 In an assertion-based assurance engagement*, the members of the assurance team* and the firm* are required to be independent of the assurance client* (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence* requirements include prohibitions regarding certain relationships between members of the assurance team* and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information. Also, consideration should be given to whether threats to independence* are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm* has reason to believe may be created by network firm* interests and relationships.

290.16 In the majority of assertion-based assurance engagements*, the responsible party is responsible for the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice* is engaged to perform an assurance engagement* regarding a report that an environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

290.17 In those 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* are required to be independent of the party responsible for the subject matter information (the assurance client*). In addition, consideration should be given to any threats the firm* has reason to believe may be created by interests and relationships between a member of the assurance team*, the firm*, a network firm* and the party responsible for the subject matter.

Direct Reporting Assurance Engagements^{*7}

290.18 In a direct reporting assurance engagement* the members of the assurance team* and the firm* are required to be independent of the assurance client* (the party responsible for the subject matter).

* See Definitions

⁶ See appendix to Definitions, paragraph 10

⁷ See appendix to Definitions, paragraph 10

Restricted use reports

290.19 In the case of an assurance report expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's* instructions to deliver the services, including the criteria against which the subject matter are to be evaluated or measured. This knowledge and the enhanced ability of the firm* to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence* in appearance. These circumstances may be taken into account by the firm* in evaluating the threats to independence* and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this Section in evaluating the independence* of members of the assurance team* and their immediate and close family*. Further, 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 no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm* interests and relationships may be sufficient.

Independence* from Assurance Client* – Summary

290.19A *The independent requirements for assurance engagements* can be summarised as follows:*

<i>Parties needing to be independent of the assurance client*</i>	<i>Type of assurance engagement*</i>
<i>Assurance team*</i>	<i>All assurance engagements*.</i>
<i>Firm*</i>	<i>Assurance engagements* where there is not a restricted use report.</i> <i>For assurance engagements* for non-audit clients, where there is a restricted use report, the firm* may not need to comply with the full independence* requirements of this Statement but should not have a material financial interest* in the client.</i>
<i>Network firms*</i>	<i>All assurance engagements* for financial statement audit clients* (because of auditor independence* requirements)</i>

Multiple Responsible Parties

290.20 In some assurance engagements*, whether assertion-based or direct reporting, there might be several responsible parties. In such engagements, in determining whether it is necessary to apply the provisions in this Section to

* See Definitions

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 other than clearly insignificant* in the context of the subject matter information. This will take into account factors such as:

- 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 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 clearly insignificant* it may not be necessary to apply all of the provisions of this Section to that responsible party.

Other Considerations

290.21 The threats and safeguards identified in this Section are generally discussed in the context of interests or relationships between the firm*, network firms*, members of the assurance team* and the assurance client*. When the assurance team* has reason to believe that a related entity* of an assurance client* is relevant to the evaluation of the firm's* independence* of the client, the assurance team* should consider that related entity* when evaluating independence* and applying appropriate safeguards.

290.22 The evaluation of threats to independence* and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm*, a network firm* or a member of the assurance team* knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence*. There may be occasions when the firm*, a network firm* or an individual inadvertently violates this Section. If such an inadvertent violation occurs, it would generally not compromise independence* with respect to an assurance client* provided the firm* has appropriate quality control policies and procedures in place to promote independence* and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

290.23 Throughout this Section, reference is made to significant and clearly insignificant* threats in the evaluation of independence*. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant* only if it is deemed to be both trivial and inconsequential.

Objective and Structure of this Section

290.24 The objective of this Section is to assist firms* and members of assurance teams* in:

- (a) Identifying threats to independence*;
- (b) Evaluating whether these threats are clearly insignificant*; and

* See Definitions

- (c) In cases when the threats are not clearly insignificant*, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement*.

290.25 This Section concludes with some examples of how this conceptual approach to independence* is to be applied to specific circumstances and relationships. The examples discuss threats to independence* that may be created by specific circumstances and relationships (paragraphs 290.100 onwards). Professional judgement is used to determine the appropriate safeguards to eliminate threats to independence* or to reduce them to an acceptable level. In certain examples, the threats to independence* are so significant the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement*. In other examples, the threat can be eliminated or reduced to an acceptable level by the application of safeguards. The examples are not intended to be all-inclusive.

290.27 When threats to independence* that are not clearly insignificant* are identified, and the firm* decides to accept or continue the assurance engagement*, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

290.29 Audit committees* can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm* is independent in carrying out its audit role. There should be regular communications between the firm* and the audit committee* (or other governance body if there is no audit committee*) of listed entities regarding relationships and other matters that might, in the firm's* opinion, reasonably be thought to bear on independence*.

290.30 Firms* should establish policies and procedures relating to independence* communications with audit committees*, or others charged with governance of the client. Matters to be communicated will vary in each circumstance and should be decided by the firm*, but should generally address the relevant matters set out in this Section.

Engagement Period

290.31 The members of the assurance team* and the firm* should be independent of the assurance client* during the period of the assurance engagement*. The period of the engagement starts when the assurance team* begins to perform assurance services and ends when the assurance report is

* See Definitions

issued, except when the assurance engagement* is of a recurring nature. If the assurance engagement* is expected to recur, the period of the assurance engagement* ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

290.32 The firm* should consider whether any financial or business relationships or previous services may create threats to independence*.

* See Definitions

APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS: CONTENTS

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Introduction

290.100 The following examples describe specific circumstances and relationships that may create threats to independence*. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all inclusive. In practice, the firm*, network firms* and the members of the assurance team* will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15 can be applied to satisfactorily address the threats to independence*.

290.101 The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team* and the firm* to be independent of an assurance client* that is not a financial statement audit client*. The examples do not include assurance reports expressly restricted for use by identified users. As stated in paragraph 290.19 for such engagements, members of the assurance team* and their immediate and close family* are

* See Definitions

required to be independent of the assurance client*. Further, the firm* should not have a material financial interest*, direct or indirect, in the assurance client*.

290.102 The examples should be read in conjunction with paragraphs 290.20 which explain that, in the majority of assurance engagements*, there is one responsible party and that responsible party comprises the assurance client*. However, in some assurance engagements* there are two responsible parties. In such circumstances, consideration should be given to any threats the firm* has reason to believe may be 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.

290.103 Interpretation 2005–01 to this Section provides further guidance on the application of the independence* requirements contained in this Section to assurance engagements* that are not financial statement audit engagements* *in a number of example situations. This is included as an Appendix to this Section.*

Financial Interests*

290.104 A financial interest* in an assurance client* may create a self-interest threat. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest*. This includes an evaluation of the role of the person holding the financial interest*, the materiality of the financial interest* and the type of financial interest* (direct or indirect).

290.105 When evaluating the type of financial interest*, consideration should be given to the fact that financial interests* range from those where the individual has no control over the investment vehicle or the financial interest* held (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest* (e.g., as a trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence*, it is important to consider the degree of control or influence that can be exercised over the intermediary, the financial interest* held, or its investment strategy. When control exists, the financial interest* should be considered direct. Conversely, when the holder of the financial interest* has no ability to exercise such control the financial interest* should be considered indirect.

290.106 If a member of the assurance team*, or their immediate family* member, has a direct financial interest*, or a material indirect financial interest*, in the assurance client*, the self-interest threat created would be so significant the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to:

- (a) Dispose of the direct financial interest* prior to the individual becoming a member of the assurance team*;

* See Definitions

- (b) Dispose of the indirect financial interest* in total or dispose of a sufficient amount of it so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team*; or
- (c) Remove the member of the assurance team* from the assurance engagement*.

290.107 If a member of the assurance team*, or their immediate family* member receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest* or a material indirect financial interest* in the assurance client*, a self-interest threat would be created. The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level:

- (a) Disposing of the financial interest* at the earliest practical date; or
- (b) Removing the member of the assurance team* from the assurance engagement*.

During the period prior to disposal of the financial interest* or the removal of the individual from the assurance team*, consideration should be given to whether additional safeguards are necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing the matter with those charged with governance, such as the audit committee*; or
- Involving an additional professional accountant* to review the work done, or otherwise advise as necessary.

290.108 When a member of the assurance team* knows that his or her close family* member has a direct financial interest* or a material indirect financial interest* in the assurance client*, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team* and the close family* member and the materiality of the financial interest*. Once the significance of the threat has been evaluated, safeguards should be considered and applied as necessary. Such safeguards might include:

- The close family* member disposing of all or a sufficient portion of the financial interest* at the earliest practical date;
- Discussing the matter with those charged with governance, such as the audit committee*;
- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done by the member of the assurance team* with the close family* relationship or otherwise advise as necessary; or
- Removing the individual from the assurance engagement*.

290.109 When a firm* or a member of the assurance team* holds a direct financial interest* or a material indirect financial interest* in the assurance client* as a trustee, a self-interest threat may be created by the possible influence of the trust over the assurance client*. Accordingly, such an interest should only be held when:

* See Definitions

- (a) The member of the assurance team*, an immediate family* member of the member of the assurance team*, and the firm* are not beneficiaries of the trust;
- (b) The interest held by the trust in the assurance client* is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client*; and
- (d) The member of the assurance team* or the firm* does not have significant influence over any investment decision involving a financial interest* in the assurance client*.

290.110 Consideration should be given to whether a self-interest threat may be created by the financial interests* of individuals outside of the assurance team* and their immediate and close family* members. Such individuals would include:

- Partners*, and their immediate family* members, who are not members of the assurance team*;
- Partners and managerial employees who provide non-assurance services to the assurance client*; and
- Individuals who have a close personal relationship with a member of the assurance team*.

Whether the interests held by such individuals may create a self-interest threat will depend upon factors such as:

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

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Where appropriate, policies to restrict people from holding such interests;
- Discussing the matter with those charged with governance, such as the audit committee*; or
- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done or otherwise advise as necessary.

290.111 An inadvertent violation of this Section as it relates to a financial interest* in an assurance client* would not impair the independence* of the firm*, the network firm* or a member of the assurance team* when:

- (a) The firm*, and the network firm*, have established policies and procedures that require all professionals to report promptly to the firm* any breaches resulting from the purchase, inheritance or other acquisition of a financial interest* in the assurance client*;
- (b) The firm*, and the network firm*, promptly notify the professional that the financial interest* should be disposed of; and

* See Definitions

- (c) The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team*.

290.112 When an inadvertent violation of this Section relating to a financial interest* in an assurance client* has occurred, the firm* should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done by the member of the assurance team*; or
- Excluding the individual from any substantive decision-making concerning the assurance engagement*.

290.122 If a firm* has a direct financial interest* in an assurance client* the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest* would be the only action appropriate to permit the firm* to perform the engagement.

290.123 If a firm* has a material indirect financial interest* in an assurance client* a self-interest threat is also created. The only action appropriate to permit the firm* to perform the engagement would be for the firm* to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.124 If a firm* has a material financial interest* in an entity that has a controlling interest in an assurance client*, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the firm* to perform the engagement would be for the firm* either to dispose of the financial interest* in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.125 When a restricted use report for an assurance engagement* is issued, exceptions to the provisions in paragraphs 290.106 to 290.110 and 290.122 to 290.124 are set out in 290.19.

Loans* and Guarantees

290.126 A loan*, or a guarantee of a loan*, to the firm* from an assurance client* that is a bank or a similar institution, would not create a threat to independence* provided the loan*, or guarantee, is made under normal lending procedures, terms and requirements and the loan* is immaterial to both the firm* and the assurance client*. If the loan* is material to the assurance client* or the firm* it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant* from outside the firm*, or network firm*, to review the work performed.

* See Definitions

290.127 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 their immediate family* would not create a threat to independence* provided the loan*, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans* include home mortgages, bank overdrafts, car loans* and credit card balances.

290.128 Similarly, deposits made by, or brokerage accounts of, a firm* or a member of the assurance team* with an assurance client* that is a bank, broker or similar institution would not create a threat to independence* provided the deposit or account is held under normal commercial terms.

290.129 If the firm*, or a member of the assurance team*, makes a loan* to an assurance client*, that is not a bank or similar institution, or guarantees such an assurance client's* borrowing, the self-interest threat created would be so significant no safeguard 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 assurance client*.

290.130 Similarly, if the firm* or a member of the assurance team* accepts a loan* from, or has borrowing guaranteed by, an assurance client* that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard 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 assurance client*.

Close Business Relationships with Assurance Clients*

290.132 A close business relationship between a firm* or a member of the assurance team* and the assurance client* or its management, will involve a commercial or common financial interest* and may create self-interest and intimidation threats. The following are examples of such relationships:

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

Unless the financial interest* is immaterial and the relationship is clearly insignificant* to the firm* and the assurance client*, no safeguards could reduce the threat to an acceptable level. Consequently, in both these circumstances the only possible courses of action are to:

- (a) Terminate the business relationship;

* See Definitions

- (b) Reduce the magnitude of the relationship so that the financial interest* is immaterial and the relationship is clearly insignificant*; or
- (c) Refuse to perform the assurance engagement*.

Unless any such financial interest* is immaterial and the relationship is clearly insignificant* to the member of the assurance team*, the only appropriate safeguard would be to remove the individual from the assurance team*.

290.134 The purchase of goods and services from an assurance client* by the firm* or a member of the assurance team* would not generally create a threat to independence* providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction;
- Removing the individual from the assurance team*; or
- Discussing the issue with those charged with governance, such as the audit committee*.

Family and Personal Relationships

290.135 Family and personal relationships between a member of the assurance team* and a director, an officer or certain employees, depending on their role, of the assurance client*, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement*, the closeness of the relationship and the role of the family member or other individual within the assurance client*. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

290.136 When an immediate family* member of a member of the assurance team* is a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, or was in such a position during any period covered by the engagement, 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 safeguard could reduce the threat to independence* to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement*.

290.137 When an immediate family* member of a member of the assurance team* is an employee in a position to exert direct and significant influence over the subject matter of the engagement, threats to independence* may be created. The significance of the threats will depend on factors such as:

* See Definitions

- The position the immediate family* member holds with the client; and
- The role of the professional on the assurance team*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance team*;
- Where possible, 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; or
- Policies and procedures to empower staff to communicate to senior levels within the firm* any issue of independence* and objectivity that concerns them.

290.138 When a close family* member of a member of the assurance team* is a director, an officer, or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, threats to independence* may be created. The significance of the threats will depend on factors such as:

- The position the close family* member holds with the client; and
- The role of the professional on the assurance team*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance team*;
- Where possible, 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; or
- Policies and procedures to empower staff to communicate to senior levels within the firm* any issue of independence* and objectivity that concerns them.

290.139 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family* member of a member of the assurance team* has a close relationship with the member of the assurance team* and is a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*. Therefore, members of the assurance team* are responsible for identifying any such persons and for consulting in accordance with firm* procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the assurance client*.

* See Definitions

290.140 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner* or employee of the firm* who is not a member of the assurance team* and a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*. Therefore partners* and employees of the firm* are responsible for identifying any such relationships and for consulting in accordance with firm* procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the firm* professional with the assurance team*, the position held within the firm*, and the role of the individual within the assurance client*.

290.141 An inadvertent violation of this Section as it relates to family and personal relationships would not impair the independence* of a firm* or a member of the assurance team* when:

- (a) The firm* has established policies and procedures that require all professionals to report promptly to the firm* any breaches resulting from changes in the employment status of their immediate or close family* members or other personal relationships that create threats to independence*;
- (b) Either the responsibilities of the assurance team* are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the firm* promptly removes the professional from the assurance engagement*; and
- (c) Additional care is given to reviewing the work of the professional.

290.142 When an inadvertent violation of this Section relating to family and personal relationships has occurred, the firm* should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done by the member of the assurance team*; or
- Excluding the individual from any substantive decision-making concerning the assurance engagement*.

Employment with Assurance Clients*

290.143 A firm* or a member of the assurance team's* independence* may be threatened if a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement* has been a member of the assurance team* or partner* of the firm*. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former firm*. Similarly, a member of the assurance team's* independence* may be

* See Definitions

threatened when an individual participates in the assurance engagement* knowing, or having reason to believe, that he or she is to, or may, join the assurance client* some time in the future.

290.144 If a member of the assurance team*, partner* or former partner of the firm* has joined the assurance client*, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- (a) The position the individual has taken at the assurance client*.
- (b) The amount of any involvement the individual will have with the assurance team*.
- (c) The length of time that has passed since the individual was a member of the assurance team* or firm*.
- (d) The former position of the individual within the assurance team* or firm*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Considering the appropriateness or necessity of modifying the assurance plan for the assurance engagement*;
- Assigning an assurance team* to the subsequent assurance engagement* that is of sufficient experience in relation to the individual who has joined the assurance client*;
- Involving an additional professional accountant* who was not a member of the assurance team* to review the work done or otherwise advise as necessary; or
- Quality control review of the assurance engagement*.

In all cases, all of the following safeguards are necessary to reduce the threat to an acceptable level:

- (a) The individual concerned is not entitled to any benefits or payments from the firm* unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's* independence*.
- (b) The individual does not continue to participate or appear to participate in the firm's* business or professional activities.

290.145 A self-interest threat is created when a member of the assurance team* participates in the assurance engagement* while knowing, or having reason to believe, that he or she is to, or may, join the assurance client* some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- (a) Policies and procedures to require the individual to notify the firm* when entering serious employment negotiations with the assurance client*.
- (b) Removal of the individual from the assurance engagement*.

* See Definitions

In addition, consideration should be given to performing an independent review of any significant judgements made by that individual while on the engagement.

Recent Service with Assurance Clients*

290.146 To have a former officer, director or employee of the assurance client* serve as a member of the assurance team* may create self-interest, self-review and familiarity threats. This would be particularly true when a member of the assurance team* has to report on, for example, subject matter information he or she had prepared or elements of the financial statements* he or she had valued while with the assurance client*.

290.147 If, during the period covered by the assurance report, a member of the assurance team* had served as an officer or director of the assurance client*, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team*.

290.148 If, prior to the period covered by the assurance report, a member of the assurance team* had served as an officer or director of the assurance client*, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, this may create self-interest, self-review and familiarity threats. 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 assurance client*, is to be evaluated in the current period as part of the current assurance engagement*. The significance of the threats will depend upon factors such as:

- The position the individual held with the assurance client*;
- The length of time that has passed since the individual left the assurance client*; and
- The role the individual plays on the assurance team*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant* to review the work done by the individual as part of the assurance team* or otherwise advise as necessary; or
- Discussing the issue with those charged with governance, such as the audit committee*.

Serving as an Officer or Director on the Board of Assurance Clients*

290.149 If a partner or employee of the firm* serves as an officer or as a

* See Definitions

director on the board of an assurance client* the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. Consequently, if such an individual were to accept such a position the only course of action is to refuse to perform, or to withdraw from the assurance engagement*.

290.150 The position of Company Secretary has different implications in different jurisdictions. The 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 degree of association with the entity and may create self-review and advocacy threats.

290.152 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters is generally not perceived to impair independence*, provided client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance Clients*

290.153 Using the same senior personnel on an assurance engagement* over a long period of time may create a familiarity threat. The significance of the threat will depend upon factors such as:

- The length of time that the individual has been a member of the assurance team*;
- The role of the individual on the assurance team*;
- The structure of the firm*; and
- The nature of the assurance engagement*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied to reduce the threat to an acceptable level. Such safeguards might include:

- Rotating the senior personnel off the assurance team*;
- Involving an additional professional accountant* who was not a member of the assurance team* to review the work done by the senior personnel or otherwise advise as necessary; or
- Independent internal quality reviews.

Provision of Non-assurance Services to Assurance Clients*

290.158 Firms* have traditionally provided to their assurance clients* a range of non-assurance services that are consistent with their skills and expertise. Assurance clients* value the benefits that derive from having these firms*, which have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such non-assurance services will often result in the assurance team* obtaining information regarding the assurance client's* business and operations that is

* See Definitions

helpful in relation to the assurance engagement*. The greater the knowledge of the assurance client's* business, the better the assurance team* will understand the assurance client's* procedures and controls, and the business and financial risks that it faces. The provision of non-assurance services may, however, create threats to the independence* of the firm*, a network firm* or the members of the assurance team*, particularly with respect to perceived threats to independence*. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases, it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases, no safeguards are available to reduce the threat to an acceptable level.

290.159 The following activities would generally create self-interest or self-review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement* would reduce the threats to an acceptable level:

- Authorising, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client*, or having the authority to do so.
- Determining which recommendation of the firm* should be implemented.
- Reporting, in a management role, to those charged with governance.

290.160 The examples set out in paragraphs 290.169 to 290.205 are addressed in the context of the provision of non-assurance services to an assurance client*. The subject matter information of *non-audit* assurance services may be limited in nature. Threats to independence*, however, may arise when a firm* provides a non-assurance service related to the subject matter information, of a non-financial statement audit assurance engagement*. In such cases, consideration should be given to the significance of the firm's* involvement with the subject matter information, of the engagement, whether any self-review threats are created and whether any threats to independence* could be reduced to an acceptable level by application of safeguards, or whether the engagement should be declined. When the non-assurance service is not related to the subject matter information, of the non-financial statement audit assurance engagement*, the threats to independence* will generally be clearly insignificant*.

290.161 The following activities may also create self-review or self-interest threats:

- Having custody of an assurance client's* assets.
- Supervising assurance client* employees in the performance of their normal recurring activities.
- Preparing 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).

The significance of any threat created should be evaluated and, if the threat is

* See Definitions

other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Making arrangements so that personnel providing such services do not participate in the assurance engagement*;
- Involving an additional professional accountant* to advise on the potential impact of the activities on the independence* of the firm* and the assurance team*.

290.162 New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it impossible to draw up an all-inclusive list of all situations when providing non-assurance services to an assurance client* might create threats to independence* and of the different safeguards that might eliminate these threats or reduce them to an acceptable level. In general, however, a firm* may provide services beyond the assurance engagement* provided any threats to independence* have been reduced to an acceptable level.

290.163 The following safeguards may be particularly relevant in reducing to an acceptable level threats created by the provision of non-assurance services to assurance clients*:

- Policies and procedures to prohibit professional staff from making management decisions for the assurance client*, or assuming responsibility for such decisions.
- Discussing independence* issues related to the provision of non-assurance services with those charged with governance, such as the audit committee*.
- Policies within the assurance client* regarding the oversight responsibility for provision of non-assurance services by the firm*.
- Involving an additional professional accountant* to advise on the potential impact of the non-assurance engagement* on the independence* of the member of the assurance team* and the firm*.
- Involving an additional professional accountant* outside of the firm* to provide assurance on a discrete aspect of the assurance engagement*.
- Obtaining the assurance client's* acknowledgement of responsibility for the results of the work performed by the firm*.
- Disclosing to those charged with governance, such as the audit committee*, the nature and extent of fees charged.
- Making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement*.

290.164 Before the firm* accepts an engagement to provide a non-assurance service to an assurance client*, consideration should be given to whether the provision of such a service would create a threat to independence*. In situations when a threat created is other than clearly insignificant*, the non-assurance engagement* should be declined unless appropriate safeguards can be applied to eliminate the threat or reduce it to an acceptable level.

* See Definitions

Preparing Accounting Records and Financial Statements*

290.169 Self-review threats may be created if, for example, the firm* developed and prepared prospective financial information and subsequently provided assurance on this prospective financial information. Consequently, the firm* should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat is other than clearly insignificant* safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

Such safeguards might include:

- *Making arrangements so such services are not performed by a member of the assurance team*;*
- *Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the assurance client*;*
- *Requiring the source data for the accounting entries to be originated by the assurance client*;*
- *Requiring the underlying assumptions to be originated and approved by the assurance client*.*

Valuation Services

290.174 A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

290.179 When the firm* performs a valuation that forms part of the subject matter information of an assurance engagement*, the firm* should consider any self-review threats. If the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

Such safeguards might include:

- *Involving an additional professional accountant* who was not a member of the assurance team* to review the work done or otherwise advise as necessary;*
- *Confirming with the assurance client* their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;*
- *Obtaining the assurance client's* acknowledgement of responsibility for the results of the work performed by the firm*;*
- *Making arrangements so that personnel providing such services do not participate in the assurance engagement*, and*
- *The extent and clarity of any disclosures.*

In determining whether the above safeguards would be effective, consideration should be given to the following matters:

* See Definitions

- *The extent of the assurance client's* knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgement.*
- *The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.*
- *For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.*
- *The reliability and extent of the underlying data.*
- *The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.*

Recruiting Senior Management

290.203 The recruitment of senior management for an assurance client*, such as those in a position to affect the subject matter information of the assurance engagement*, may create current or future self-interest, familiarity and intimidation threats. The significance of the threat will depend upon factors such as:

- The role of the person to be recruited; and
- The nature of the assistance sought.

The firm* could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm* could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the assurance client*.

The significance of the threat created should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. In all cases, the firm* should not make management decisions and the decision as to whom to hire should be left to the client.

Corporate Finance and Similar Activities

290.204 The provision of corporate finance services, advice or assistance to an assurance client* may create advocacy and self-review threats. In the case of certain corporate finance services, the independence* threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. For example, promoting, dealing in, or underwriting of an assurance client's* shares* is not compatible with providing assurance services. Moreover, committing the assurance client* to the terms of a transaction or consummating a transaction on behalf of the client would create a threat to independence* so significant no safeguard could reduce the threat to an acceptable level.

290.205 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a client in

* See Definitions

developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include:

- Policies and procedures to prohibit individuals assisting the assurance client* from making managerial decisions on behalf of the client;
- Using professionals who are not members of the assurance team* to provide the services; and
- Ensuring the firm* does not commit the assurance client* to the terms of any transaction or consummate a transaction on behalf of the client.

Fees – Relative Size

290.206 When the total fees generated by an assurance client* represent a large proportion of a firm's* total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat. The significance of the threat will depend upon factors such as:

- The structure of the firm*; and
- Whether the firm* is well established or newly created.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing the extent and nature of fees charged with the audit committee* or others charged with governance;
- Taking steps to reduce dependency on the client;
- External quality control reviews; and
- Consulting a third party, such as a professional regulatory body or another professional accountant*.

A presumption of dependence on a client or intermediary arises where it is expected that annual fee income from all services provided by the firm or its network firm* to that client or a related entity*, or intermediary, will regularly exceed 15 per cent of the aggregate gross practice income of the firm* or its network. In the case of listed entities the proportion falls to 10 per cent.*

Where the percentage of income from a client represents 10 per cent or more of the firm's total income it should carry out a review to ensure that there is no significant threat to independence* and apply safeguards where necessary. In the case of listed clients the firm* should initiate a review where the income from the client represents 5 per cent or more of the firm's* total income and disclose this percentage to the assurance client's* governance body.*

290.207 A self-interest threat may also be created when the fees generated by the assurance client* represent a large proportion of the revenue of an

* See Definitions

individual partner*. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Policies and procedures to monitor and implement quality control of assurance engagements*; and
- Involving an additional professional accountant* who was not a member of the assurance team* to review the work done or otherwise advise as necessary.

Fees – Overdue

290.208 A self-interest threat may be created if fees due from an assurance client* for professional services* remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguards may be applicable:

- Discussing the level of outstanding fees with the audit committee* or others charged with governance.
- Involving an additional professional accountant* who did not take part in the assurance engagement* to provide advice or review the work performed.

The firm* should also consider 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.

Pricing

290.209 When a firm* obtains an assurance engagement* at a significantly lower fee level than that charged by the predecessor firm*, or quoted by other firms*, the self-interest threat created will not be reduced to an acceptable level unless:

- (a) The firm* is able to demonstrate that appropriate time and qualified staff are assigned to the task; and
- (b) All applicable assurance standards, guidelines and quality control procedures are being complied with.

Contingent Fees*

290.210 Contingent fees* are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. For the purposes of this Section, fees are not regarded as being contingent if a court or other public authority has established them.

290.211 A contingent fee* charged by a firm* in respect of an assurance engagement* creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm* should not enter into any fee arrangement for an assurance engagement* under which the amount of the fee is contingent on the result of

* See Definitions

the assurance work or on items that are the subject matter information of the assurance engagement*.

290.212 A contingent fee* charged by a firm* in respect of a non-assurance service provided to an assurance client* may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement* was agreed to, or contemplated, during an assurance engagement* and was contingent on the result of that assurance engagement*, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, the only acceptable action is not to accept such arrangements. For other types of contingent fee* arrangements, the significance of the threats created will depend on factors such as:

- The range of possible fee amounts;
- The degree of variability;
- The basis on which the fee is to be determined;
- Whether the outcome or result of the transaction is to be reviewed by an independent third party; and
- The effect of the event or transaction on the assurance engagement*.

The significance of the threats should be evaluated and, if the threats are other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threats to an acceptable level. Such safeguards might include:

- Disclosing to the audit committee* or others charged with governance, the extent and nature of fees charged;
- Review or determination of the final fee by an unrelated third party; or
- Quality and control policies and procedures.

Due diligence assignments, particularly those performed in relation to a prospective transaction, typically involve a high level of risk and responsibility. A firm* carrying out a due diligence* assignment may charge a higher fee for work relating to a completed transaction than for the same transaction if it is not completed, for whatever reason, provided that the difference reflects any additional risk and responsibility.*

Gifts and Hospitality

290.213 Accepting gifts or hospitality from an assurance client* may create self-interest and familiarity threats. When a firm* or a member of the assurance team* accepts gifts or hospitality, unless the value is clearly insignificant*, the threats to independence* cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm* or a member of the assurance team* should not accept such gifts or hospitality.

A similar consideration will apply to an immediate or close family member of a member of the assurance team* other than where a person receives a benefit in their own right and not because of the connection.*

* See Definitions

Actual or Threatened Litigation

290.214 When litigation takes place, or appears likely, between the firm* or a member of the assurance team* and the assurance client*, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance team* must be characterised by complete candor and full disclosure regarding all aspects of a client's business operations. The firm* and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm* may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- The materiality of the litigation;
- The nature of the assurance engagement*; and
- Whether the litigation relates to a prior assurance engagement*.

Once the significance of the threat has been evaluated the following safeguards should be applied, if necessary, to reduce the threats to an acceptable level:

- (a) Disclosing to the audit committee*, or others charged with governance, the extent and nature of the litigation;
- (b) If the litigation involves a member of the assurance team*, removing that individual from the assurance team*; or
- (c) Involving an additional professional accountant* in the firm* who was not a member of the assurance team* to review the work done or otherwise advise as necessary.

If such safeguards do not reduce the threat to an appropriate level, the only appropriate action is to withdraw from, or refuse to accept, the assurance engagement*.

Appendix to Section 290

This interpretation (2005–01) provides guidance on the application of the independence* requirements contained in Section 290 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 290 that are relevant in the consideration of independence* requirements for all assurance engagements*. For example, paragraph 290.15 states that consideration should be given to any threats the firm* has reason to believe may be created by network firms' interests and relationships. Similarly, paragraph 290.21 states that for assurance clients*, that are other than listed entity* financial statement audit clients*, 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* should consider that related entity* when evaluating independence* and applying appropriate safeguards. These matters are not specifically addressed in this interpretation.

* See Definitions

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, consideration should be given to any threats the firm* has reason to believe may be created by interests and relationships between a member of the assurance team*, the firm*, a network firm* and the party responsible for the subject matter.

Direct Reporting Assurance Engagements*

In a direct reporting assurance engagement*, the professional accountant in public practice* either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

In a direct reporting assurance engagement* independence* is required from the responsible party, which is responsible for the subject matter.

Multiple Responsible Parties

In both assertion-based assurance engagements* and direct reporting assurance engagements* there may be several responsible parties. For example, a public accountant in public practice* may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion-based assurance engagement* where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement*, where there is no assertion and there may or may not be a written representation from the newspapers.

In such engagements, when determining whether it is necessary to apply the provisions in Section 290 to each responsible party, the firm* may take into

* See Definitions

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 other than clearly insignificant 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 clearly insignificant* it may not be necessary to apply all of the provisions of this Section to that responsible party.

The following example has been developed to demonstrate the application of Section 290. It is assumed that the client is not also a financial statement audit client* of the firm*, or a network firm*.

A firm* is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the professional accountant in public practice* determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
Total	104,301

* See Definitions

The engagement could be structured in differing ways:

Assertion-based Engagements

A1 Each company measures its reserves and provides an assertion to the firm* and to intended users.

A2 An entity other than the companies measures the reserves and provides an assertion to the firm* and to intended users.

Direct Reporting Engagements

D1 Each company measures the reserves and provides the firm* with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

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 other than clearly insignificant*. 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 290.20).

For example Company 8 accounts for 0.16% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence* requirements apply, the assurance team* and the firm* are required to be independent of those responsible parties which would be considered to be the assurance client* (paragraph 290.20).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm* and to intended users.

The firm* would be required to be independent of the entity that measures the reserves and provides an assertion to the firm* and to intended users

* See Definitions

(paragraph 290.17). That entity is not responsible for the subject matter and so consideration should be given to any threats the firm* has reason to believe may be created by interests/relationships with the party responsible for the subject matter (paragraph 290.17). 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 other than clearly insignificant*.

D1 Each company provides the firm* with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (companies 1–10). When determining whether it is necessary to apply the independence* provisions to all of the companies, the firm* may take into account whether an interest or relationship with a particular company would create a threat to independence* that is other than clearly insignificant*. 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 290.20).

For example Company 8 accounts for 0.16% 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 290.20).

D2 The firm* directly measures the reserves of some of the companies.

The application is the same as in example D1.

* See Definitions