



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL CODE OF CONDUCT AND GUIDE FOR MEMBERS

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FOREWORD

The Fundamental function of the Accountancy profession is the protection of public interest. The increasing dynamics of the business environment in which Chartered Accountants operate, has made it necessary for the Institute to review the contents of the *Professional Code of Conduct* currently in existence. The result of the far-reaching review is contained in these rules of professional conduct for members which will continually guide Chartered Accountants in their business and professional relationships.

Generally, a member of a profession owes certain duties to the public at large, including those who retain or employ him; to the profession itself and to all other members of that profession, even though such duties may at times be at variance with his own personal interests.

This *Professional Code of Conduct* serves as a guide to members of the Institute, and require strict observance as a condition for continuing membership.

The Institute's enabling Act (Institute of Chartered Accountants Act No. 15 of 1965) and these Rules of Professional Conduct have been drawn in such a way that they will assist members in their approach to problems bearing on professional conduct, which they may have to deal with in the performance of their day to day duties whilst the non-observance of these shall result in disciplinary action if that member is found guilty of misconduct.

For this purpose, misconduct is defined **to be any act or default likely to bring discredit to a member, the Institute or the accountancy profession.** The Council is of the opinion that a high standard of professional conduct is best maintained by complying with these general provisions, which are not exhaustive because it difficult to lay down a written code which would always operate fairly and not leave loopholes for those who are prepared to keep within the letter of the law but care nothing for its spirit, it is also difficult to specify all those circumstances in which a member may be held liable to have committed professional misconduct as defined above.

The Institute through its Council reserves the right to vary from time to time, these Rules of Professional Conduct which set out its ethical requirements in relation to those professional situations which most commonly arise. The Investigating **Panel** and the **Accountants' Disciplinary Tribunal**, will demand compliance from members and strictly enforce the maintenance of high standards of professional conduct required of a Chartered Accountant.

An erring member shall be required to answer questions from the Investigating Panel over any complaint and if found referable, would appear before the Disciplinary Tribunal. In keeping with acceptable international practice, the Investigating Panel and the Accountants' Disciplinary Tribunal act in complete independence of Council; have the authority to enforce ethical

standards, exercise disciplinary powers, and are entirely free to decide every case coming before them on its merit.

The Investigating Panel and The Accountants' Disciplinary Tribunal act impartially, without fear or favour, affection or ill-will, basing their decisions purely on whether or not matters before them have been proved beyond any reasonable doubt as to or not to constitute a misconduct. The freedom of the Investigating Panel and the Disciplinary Tribunal to act impartially is what all members of the Institute must seek to guard jealously.

The fact that misconduct cannot generally be defined, but has to be determined in each individual case by the facts before the panel and the Tribunal, makes it impossible for the Council to lay down mandatory instructions, the mere breach of which would amount to misconduct.

It follows therefore, that these Rules of Professional Conduct are issued by the Institute as a directive and to assist members to conduct themselves in a manner, which the Council considers appropriate to the profession in general and to the members of the Institute in particular. These Rules must, of course, be read in conjunction with the Institute's Act, other Laws or Act in force and binding on the Chartered Accountant. A Chartered Accountant or member Firm shall not apply less stringent standards than those stated in this code of Ethics. Members who are in doubt as to their correct course of action in particular circumstances should obtain further advice through the Registrar/Chief Executive of the Institute.

ACKNOWLEDGEMENTS

This Professional Code of Conduct for members draws extensively from the guidelines of the International Federation of Accountants (IFAC).

Their guidelines had to be substantially adapted to meet the peculiarities of our local environment without compromising ethical standards. We are immensely grateful for the permission to use their materials.

Our appreciation also goes to the World Bank for financing the project.

The Institute is appreciative of the contributions and comments of members, the Investigating Panel, and member firms on the initial draft as well as the efforts of the Secretariat staff.

PART ONE

GENERAL APPLICATION OF THE CODE

CHAPTER ONE

1.0.0 INTRODUCTION AND FUNDAMENTAL PRINCIPLES

1.1.0 INTRODUCTION

This Code is in four Parts and has twenty-one chapters. Part one defines and explains the Fundamental Principles upon which the Chartered Accountant performs his duties and provides the conceptual framework for applying those principles. The Chartered Accountant is required to apply this conceptual framework in identifying threats to compliance with the Fundamental Principles, evaluating their significance and, if such threats are other than clearly insignificant, to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.

Part two deals with and illustrates how the conceptual framework is to be applied by members in Public Practice.

Part three deals with the rules and regulations guiding members in Business and illustrates how the conceptual framework is to be applied by them.

Part four explains the *modus operandi* of enforcement of the Rules.

1.1.1 Throughout these Rules the term 'member' includes, except where the context otherwise requires, a firm or practice and the term 'partner' includes a director of a body corporate. For the position of affiliates see paragraph 1.1.9 below. To make the language of the Rules simpler and more direct the male pronoun is used throughout to refer to all members regardless of gender; the same technique is employed where possessives are used for the first time and the terms Institute and or ICAN will refer to the Institute of Chartered Accountants of Nigeria.

1.1.2 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a Chartered Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest Chartered Accountants should observe and comply with the ethical requirements of this Code.

1.1.3 In addition to the duties owed to the public and to his client or employer, a member of the Institute is bound to observe high standards of Professional conduct. These Rules

are to aid members in the identification of occasions in which they might be at risk of failing to recognize or conform to any of those standards.

1.1.4 One of the principal objectives of the ICAN Act is to maintain high standards of professional practice and conduct by all members. The Act renders members liable to disciplinary action, *inter alia*, if in the course of carrying out their professional duties or otherwise, they commit any act or default likely to bring discredit to members, the Institute or the profession of accountancy. Believing that a high standard of practice and conduct is best maintained by such general provisions, the Council nonetheless considers it desirable to be more explicit in specific areas, hence these rules.

1.1.5 ***Framework for Application of the Code/ Rules***

Duties owed by Chartered Accountants, whether in public Practice or not, to the public, require compliance with certain basic ethics described as Fundamental Principles, which constitute professional behaviour. These Fundamental Principles are followed by Statements, which on the other hand are a more elaborate presentation of what is expected from members in certain circumstances.

1.1.6 The Council also herein appropriately defines the practice of accountancy in all its ramifications so that members will be aware of the scope of practice of a Chartered Accountant. The ICAN Act enables the Council of the Institute to widen the scope of the practice of accountancy and its allied subjects.

1.1.7 **Definition of Accountancy**

Accountancy Practice includes Assurance, Investigation, Forensic accounting, Tax Practice, Consultancy Practice, Insolvency and Receivership, Financial Advisory Services.

1.1.8 **Students**

Students are bound by the ethical requirements of the Institute. They also remain bound during the period between the successful completion of the examinations and their admission to membership, at which point, of course, they become subject to the same requirements in their new capacity.

1.1.9 ***Affiliates***

Affiliates, i.e. non-members being in close business connection, allied and associated with a member governed by these Regulations are bound by the Fundamental Principles and, so far as is relevant to practising members, by these Statements.

1.1.10 **Continuity of Practice**

Members must ensure that they make arrangement for the continuity in the management of their practice in the case of their death or incapacity. This is particularly important for sole practitioners.

1.1.11 **Sole Practitioner**

A sole practitioner that entered into an agreement with another firm for the provision of continuity should find a compatible practice where procedures, fee structure and the work in general are of a similar nature.

Members should ensure that their executors and family are aware, in the event of the member's death or incapacity, of the arrangements made for the management of the practice.

1.1.12 ***Failure to Follow the Rules***

A member is expected to follow the guidance contained in the fundamental Principles. Failure to follow the rules constitutes an act of professional misconduct or an act of infamous conduct as the case may be. In determining whether or not a complaint is proved, the Accountants' Disciplinary Tribunal may have regard to any code of practice, ethical or technical, and to any regulation affecting members or member firms laid down by the Council.

1.1.13 In considering a complaint of misconduct against a member, the Disciplinary Tribunal may also have regard to any Accounting Guideline and other Regulations of the Council as spelt out in the Rules and Regulations of the Institute.

1.1.14 ***Enforcement of Ethical Standards***

The power of the Institute to enforce ethical standards is conferred by the ICAN Act on the Accountants' Disciplinary Tribunal, which is, in respect of this power, independent of the Council. Details of the enforcement process and procedures are discussed in more details in Part four of this code.

1.2.0. **Fundamental Principles**

A Chartered Accountant is required to comply with the following fundamental principles:

(a) ***Integrity***

A Chartered Accountant should be straightforward and honest in all professional and business relationships. Integrity implies not merely honesty but fair dealing and truthfulness.

(b) ***Objectivity***

Objectivity is the state of mind, which has regard to all considerations relevant to the task in hand but no other consideration. A Chartered Accountant should not

allow bias, conflict of interest or undue influence to override his professional or business judgments.

(c) ***Professional Competence and Due Care***

A Chartered Accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A member should not accept or perform work, which he is not competent to undertake unless he obtains such advice and assistance as will enable him so to do.

A Chartered Accountant should act diligently and in accordance with applicable technical and professional standards when providing **professional services**. A member should carry out his professional work with due skill, care, diligence and expedition and with proper regard for the technical and professional standards expected of him as a member.

(d) ***Confidentiality***

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

(e) ***Professional Behaviour***

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

A member should conduct himself with courtesy and consideration towards all with whom he comes in contact during the course of performing his work.

Each of these fundamental principles is discussed in detail below:

1.2.1 **Integrity**

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

A Chartered Accountant should not be associated with reports, returns, communications or other information where they believe that the information:

- (a) Contains a materially false or misleading statement:

- (b) Contains statements or information furnished recklessly; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

A member's advice and work must be uncorrupted by self-interest and not be unduly influenced by the interests of other parties.

1.2.2 **Objectivity**

- (a) The principle of objectivity imposes an obligation on Chartered Accountants to be fair, intellectually honest and free of conflicts of interest. Regardless of service or capacity, Chartered Accountants should protect the integrity of their professional services, and maintain objectivity in their judgment.
- (b) In selecting the situations and practices to be specifically dealt with in ethics requirements relating to objectivity, adequate consideration should be given to the following factors:-
 - (i) Chartered Accountants are exposed to situations, which involve the possibility of pressures being exerted on them. These pressures may impair their objectivity.
 - (ii) Relationships should be avoided which allow prejudice, bias or influences of others to override objectivity.
 - (iii) Chartered Accountants have an obligation to ensure that personnel engaged on professional services adhere to the principle of objectivity.
 - (iv) Chartered Accountants should neither accept nor offer gifts or entertainment, which might reasonably be believed to have a significant and improper influence on their professional judgment or those with whom they deal. What constitutes an excessive gift or offer of entertainment varies from situation to situation but Chartered Accountants should avoid circumstances, which would bring their professional standing into disrepute.

1.2.3. **Professional Competence and Due Care**

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

- (b) Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:
 - (i) Attainment of professional competence (certification); and
 - (ii) Maintenance of professional competence (Continuing Education).
- (c) The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical professional and business developments. Continuing professional development e.g. Members Continuing Professional Education (MCPE) develops and maintains the capabilities that enable a Chartered Accountant to continue performing competently within the professional environment.
- (d) Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- (e) A Chartered Accountant should take steps to ensure that those working under his authority in a professional capacity have appropriate training and supervision. Where appropriate, a Chartered Accountant shall make clients, employers or other users of his professional services aware of limitations inherent in the services to avoid the *misinterpretation of an expression of opinion as an assertion of fact*.

1.2.4. Confidentiality

- (a) The principle of confidentiality imposes an obligation on Chartered Accountants to refrain from:
 - (i) Disclosing to persons outside the firm and on a need to know basis to persons within the firm or employing organization, confidential information acquired as a result of professional and business relationships without proper and specific authority unless there is a legal or professional right or duty to disclose such; and,
 - (ii) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- (b) Chartered Accountants should maintain confidentiality even in a social environment.

- (c) Chartered Accountants should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or **immediate family** member.
- (d) Chartered Accountants should also maintain confidentiality of information disclosed by a prospective client or employer.
- (e) Chartered Accountants should consider the need to maintain confidentiality of information within the firm or employing organisation.
- (f) Chartered Accountants should take all reasonable steps to ensure that staff under his control and persons from whom advice and assistance is obtained respect the Chartered Accountant's duty of confidentiality.
- (g) The need to comply with the principle of confidentiality continues even after the end of relationships between a Chartered Accountant and a client or employer when a Chartered Accountant changes employment or acquires a new client as, he is entitled to use prior experience. The Chartered Accountant should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.
- (h) The following are circumstances where Chartered Accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:
 - (i) Disclosure is permitted by law and or is authorised by the client or the employer;
 - (ii) Disclosure is required by law, for example:
 - (a) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (b) Disclosure to the appropriate public authorities of infringements of the law that came to light; and
 - (iii) There is a professional duty or right to disclose, when not prohibited by law:
 - (a) To comply with the quality review of a member body or professional body;

- (b) To respond to an inquiry or investigation by a member body or regulatory body;
 - (c) To protect the professional interests of a Chartered Accountant in legal proceedings; or
 - (d) To comply with technical standards and ethics requirements.
 - (e) Other similar situations not covered by (a) to (d) above
- (i) In deciding whether or not to disclose confidential information, Chartered Accountants should consider the following points:
- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the Chartered Accountant;
 - (b) Whether all the relevant information is known and substantiated, to the extent that it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any; and
 - (d) The type of communication that is expected and to whom it is addressed; in particular, Chartered Accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

1.2.5. Professional Behaviour

- (a) The principle of professional behaviour imposes an obligation on Chartered Accountants to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession. This includes actions which would make a reasonably informed third party conclude negatively about the good reputation of the profession.
- (b) In marketing and promoting themselves and their work, Chartered Accountants should not bring the profession into disrepute. Chartered Accountants should be honest and truthful and should not:
 - (i) Make exaggerated claims of the services they are able to offer, the qualifications they possess, or experience they have gained; or
 - (ii) Make disparaging references or unsubstantiated comparisons to the work of others.

CHAPTER TWO

2.1.0 CONCEPTUAL FRAMEWORK GUIDING COMPLIANCE WITH THE FUNDAMENTAL PRINCIPLES.

2.1.1 CONCEPTUAL FRAMEWORK

It is difficult to define every situation that creates threats to compliance with the Fundamental Principles and specify the appropriate mitigating actions. The nature of engagements and work assignments of the Chartered Accountant differs and consequently the threats to same may differ, thus requiring the application of different safeguards.

2.1.2 It is therefore reasonable to provide a conceptual framework within which a Chartered Accountant should operate in identifying, evaluating and addressing threats to compliance with the fundamental principles rather than merely complying with a set of specific rules, which may be arbitrary. This Code attempts to provide such a framework.

2.1.3 While the Chartered Accountant has an obligation to evaluate any threats to compliance with the fundamental principles, he is also expected to take qualitative as well as quantitative factors into account when considering the significance of a threat. Where a Chartered Accountant cannot implement appropriate safeguards, he should decline or discontinue the specific professional service involved, or where necessary, resign from the client (in the case of a Chartered Accountant in public practice) or the employing organization (in the case of a Chartered Accountant in business).

2.1.4 The examples given in this code are intended to illustrate how the conceptual framework is to be applied. The examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a Chartered Accountant that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for the Chartered Accountant merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances encountered by the Chartered Accountant.

2.0 THREATS AND SAFEGUARDS:

2.2.0 THREATS TO COMPLIANCE WITH THE FUNDAMENTAL PRINCIPLES

Compliance with the fundamental Principles may potentially be threatened by a broad range of circumstances, which fall into the following categories,

- (a) **Self-interest threats**, which may occur as a result of the financial or other interests of a Chartered Accountant or of an immediate or **close family** member;

- (b) **Self review threats**, which may occur when a previous judgment needs to be re-evaluated by the Chartered Accountant responsible for that judgment;
- (c) **Advocacy threats**, which may occur when a Chartered Accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;
- (d) **Familiarity threats**, which may occur when, a Chartered Accountant becomes too sympathetic to the interests of others because of a close relationship
- (e) **Intimidation threats**, which may occur when a Chartered Accountant may be deterred from acting objectively by threats, actual or perceived.

2.2.1 SAFEGUARDS

Safeguards are intended to eliminate or reduce threats to an acceptable level, and they fall into two broad categories:

- (a) Safeguards created by the profession, legislation or regulation;
- (b) Safeguards within the assurance client; and within the firm's own systems and procedures.

Chartered Accountants should select appropriate safeguards to eliminate or reduce threats to the fundamental principles to an acceptable level, other than those threats that are clearly insignificant. Parts two and three of this code respectively, discuss Safeguards in the work environment for Chartered Accountants in Public Practice and those in Business.

2.3.0 Ethical Conflict Resolution

In evaluating compliance with the fundamental principles, a Chartered Accountant may be required to resolve a conflict in the application of fundamental principles.

2.3.1 When initiating either a formal or informal conflict resolution process, a Chartered Accountant should consider the following, either individually or together with others, as part of the resolution process:

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

2.3.2 Having considered these issues, a Chartered Accountant should determine the appropriate course of action that is consistent with the fundamental principles identified. The Chartered Accountant should also weigh the consequences of each possible course of action. If the matter remains unresolved, he should consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.

- 2.3.3 Where a matter involves a conflict with, or within, an organization, a Chartered Accountant should also consider consulting with those charged with governance of the organization, such as the board of directors or the audit committee.
- 2.3.4 It may be in the best interest of the Chartered Accountant to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.
- 2.3.5 If a significant conflict cannot be resolved, a Chartered Accountant may wish to obtain professional advice from the relevant Faculty of the Institute or legal advisors, and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a Chartered Accountant may have encountered a fraud, the reporting of which could breach the Chartered Accountant's responsibility to respect confidentiality. The Chartered Accountant should consider obtaining legal advice to determine whether or not there is a requirement to report.
- 2.3.6 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a Chartered Accountant should, where possible, refuse to remain associated with the matter creating the conflict. The Chartered Accountant may determine that, in the circumstances, it is appropriate to withdraw from the engagement team, or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

PART TWO

CHARTERED ACCOUNTANTS IN PUBLIC PRACTICE

CHAPTER THREE

3.0 INTRODUCTION

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

3.1.1 A Chartered 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.

3.2.0 Threats and Safeguards:

Threats: Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances, which may fall into the following categories:

- (a) Self Interest
- (b) Self Review
- (c) Advocacy
- (d) Familiarity
- (e) Intimidation

3.2.1 Threats can arise in a number of ways, some are general in nature and some are related to the specific circumstances of an assignment or role. Members should identify the threats and consider them in the light of the environment in which they are working. They should also take into account the safeguards, which assist them to withstand threats and risks to the fundamental Principles.

3.2.2 Categories of threats

(a) **The Self-interest threat:** This is a threat to the auditor's objectivity stemming from a financial or other self-interest conflict. This could arise, from a fear of losing a client. Examples of circumstances that may create self-interest threats for Chartered Accountants in public practice include, but are not limited to:

- (i) A financial interest in a client or jointly holding a financial interest with a client.
 - (ii) Undue dependence on total fees from a client, and an unduly large proportion will normally be 25% and above which is inclusive of repetitive one-off assignments.
 - (iii) Having a close business relationship with a client.
 - (iv) Concern about the possibility of losing a client.
 - (v) Potential employment with a client.
 - (vi) Contingent fees relating to an assurance engagement.
 - (vii) A loan to or from an assurance client or any of its directors or officers.
- (b) **The self review threat** This occurs when:
- (i) any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement or
 - (ii) when a member of the assurance team was previously a director or officer of the assurance client, or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement. This threat is even more pronounced in the small and medium sized firms. Examples of circumstances that may create self-review threats include, but are not limited to.
 - (a) The discovery of a significant error during a re-evaluation of the work of the Chartered Accountant in public practice.
 - (b) Reporting on the operation of financial systems after being involved in their design or implementation. This is very common in our environment and therefore firms should take special care to look out for such threats.
 - (c) Having prepared the original data used to generate records that are the subject matter of the engagement. This is also in the same category with (ii) above.

- (d) A member of the assurance team being, or having recently been, a director or officer of that client.
 - (e) 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.
 - (f) Performing a service for a client that directly affects the subject matter of the assurance engagement.
- (c) **The Advocacy threat:** There is an apparent threat to the auditor's objectivity, if he becomes an advocate for (or against) his client's position in any adversarial proceeding or situation. Whenever the auditor takes a strongly proactive stance on the client's behalf, this may appear to be incompatible with the special objectivity that audit requires. Examples of circumstances that may create advocacy threats include, but are not limited to:
- (i) Promoting shares in a quoted entity when that entity is a financial statement audit client.
 - (ii) Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.
 - (iii) Acting as a reporting accountant in an entity when that entity is a financial statement audit client.
- (d) **The familiarity or trust threat:**
A threat where the auditor, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a member of the assurance team becomes too sympathetic to the client's interests. Examples of circumstances that may create familiarity threats include, but are not limited to:
- (i) A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
 - (ii) 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.
 - (iii) 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.

(iv) Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant (the reasonable man's judgment will be the yardstick for insignificance.)

(v) Long association of senior personnel with the assurance client.

(e) **Intimidation threat:** occurs when a member of the assurance team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client.

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

i) Being threatened with dismissal or replacement in relation to a client engagement.

ii) Being threatened with litigation.

iii) Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

3.2.3 The list above is not exhaustive; consequently members should take cognizance of other situations that may pose threats not considered above.

3.2.4 The firm and members of the assurance team have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats or reduce them to an acceptable level.

3.2.5 When threats are identified, other than those that are clearly insignificant, appropriate safeguards should be identified and applied to eliminate the threats or reduce them to an acceptable level. This decision should be documented. (It should be part of the working paper file).

3.2.6 In accepting an assignment all Chartered Accountants must carry out a risk assessment. The assessment must include, but should not be limited to, a review of the industry, the nature of the business and the management team.

3.2.7 **SAFEGUARDS AND PROCEDURES**

Safeguards fall into two broad categories:

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

(b) Safeguards within the work environment (That is, at the assurance clients' and within the firm's own systems and procedures).

The firm and the members of the assurance team should select appropriate safeguards to eliminate or reduce threats to independence, other than those that are clearly insignificant, to an acceptable level.

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

- (a) Educational, training and experience requirements for entry into the profession;
- (b) Continuing Professional Development requirements;
- (c) Professional standards and monitoring and disciplinary processes;
- (d) External review of a firm's quality control system by a legally empowered third party of the reports, returns, communications or information produced by a Chartered Accountant; e.g. peer review, regulatory professional review etc.
- (e) Legislation governing the independence requirements of the firm. e.g. Companies and Allied Matters Act.
- (f) Corporate governance regulations.

3.2.9 Safeguards within the work environment include the following:

- (a) When the assurance client's management appoints the firm, persons other than management ratify or approve the appointment;
- (b) The assurance client has competent employees to take managerial decisions;
- (c) Policies and procedures that emphasize the assurance client's commitment to fair financial reporting;
- (d) Internal procedures that ensure objective choices in commissioning non assurance engagements; and
- (f) A corporate governance structure, such as an audit committee, peer review that provide appropriate oversight function regarding a firm's services.

3.2.10 Safeguards are also:

- (a) The long standing rules of professional conduct for members of which this guidance forms part. Where appropriate, these rules impose specific prohibitions where the

threats to the auditors' objectivity is so significant or is generally perceived to be so, that no other appropriate safeguards will be effective.

- (b) The ethical support provided by the Institute e.g the investigating Panel and the Disciplinary Tribunal.
- (c) The reinforcement given to the above safeguards by the policing system which reacts to complaints whether by members of the public or members of the profession, investigates the background to the complaints and when necessary commence disciplinary proceedings against an offending member. Together with monitoring procedures below, the system ensures that the firm's past conduct and current procedures are likely to come under close independent professional scrutiny, if the conduct of practising members give rise to challenges over the exercise of these roles.
- (d) The active monitoring procedures conducted by the profession constitute a form of safeguard. On behalf of the Institute, the Professional Practice Monitoring Committee (PPMC) may visit firms which conduct audit and examine compliance with audit guidelines and sound professional practice.

3.2.11 Auditors should always use the above safeguards, i.e. profession, legislation or regulation, safeguards of the assurance client or the firm's own systems and procedures to reduce threats.

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

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

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

EXAMPLES OF SOME THREATS AND SAFEGUARDS

3.3.0. **SELF INTEREST THREATS.**

3.3.1 **AREA OF RISK**

Undue dependence on an Audit Client.

See paragraphs 3.2.2. (a) ii. For further examples see paragraphs 16.1.1

3.3.2 SAFEGUARDS

It is the responsibility of both the audit engagement partner and the management of the firm to ensure that in such a situation, additional safeguards are introduced by way of second partner review and support to ensure that objectivity of judgment is retained by the partner responsible for engagement decisions and audit judgments. For further information, see paragraph 16.1.2.

3.3.3 AREA OF RISK

Principal or senior employee joining client, threatens the Firm's objectivity thereby creating a self interest threat. For further information, see paragraph 16.1. 10 .

3.3.4 SAFEGUARDS

For further information see paragraph 16.1. 11.

3.3.5 AREA OF RISK

mutual business interest. A mutual business interest with a client company or with an officer or employee of the company will create a self -interest threat.

3.3.6 SAFEGUARDS

Where such an interest exists, the engagement should not be accepted.

3.3.7 AREA OF RISK

beneficial interests in shares and other investments. A beneficial interest is a beneficial shareholding or other direct investment in the company. Beneficial interest on the part of a principal or anyone closely connected with a principal of the audit firm in a client company will constitute an insurmountable self-interest threat. (See further explanations in paragraphs 16.1.12.

3.3.8 SAFEGUARDS

Where an employee, or a person closely connected with an employee, has such a beneficial interest, the employee should not take part in the audit of the client company.

(a) Beneficial shareholding is not intended to preclude a principal or a person closely connected with a principal from holding or continuing to hold, in the normal course of business and on normal commercial terms, an insurance or pension policy with a client insurance company or society, though an engagement partner should not take out a new policy with such a client.

(b) A beneficial holding in an authorized unit or investment trust, which holds shares in a client company is also not precluded.

- 3.3.9 **AREA OF RISK**
Loans to or from a client, guarantee, overdue fees. etc
- 3.3.10 **SAFEGUARD**
A Chartered Accountant should not take a loan from a client.
See Banks and other Financial Institutions Act and paragraph 16.1.3
- 3.3.11 **Areas of Risk**
Participation in the affairs of clients is likely to lead to self interest or familiarity threat
- 3.3.12 **SAFEGUARD**
The Chartered Accountant shall not take up such an appointment. For further information, see paragraph 16.1.8
- 3.3.13 **AREA OF RISK**
Beneficial interests in trusts.
- A beneficial interest in a trust is a beneficiary in a trust or foundation, which include a trustee of such a trust or foundation. Any beneficial interest by the auditor or principal of the assurance firm in the trust, constitutes an insurmountable self interest threat.
- 3.3.14 **SAFEGUARDS**
- (i) A beneficial interest in a trust having a shareholding in an audit client company (i.e. a Foundation or Trust) should be regarded as a beneficial interest in the Client's Company and therefore shall not take part in the audit of that client.
 - (ii) Where the principal or a person closely connected with him holds the beneficial interest in a trust, and where the principal is not a trustee, he should cease personally to take part in the audit of the company as soon as he becomes aware of the shareholding.
- 3.3.15 **COMMENTS**
- (a) Paragraph 3.3.7 above is not intended to preclude a principal or a person closely connected with a principal from holding or continuing to hold, in the normal course of business and on normal commercial terms, an insurance or pension policy with a client insurance company or society, though an engagement partner should not take out a new policy with such a client, nor is a beneficial holding in an authorized unit or investment trust which holds shares in a client company so precluded.
 - (b) Principal in an audit firm may invest in unit trusts or in an investment trust, provided that the firm does not report upon the trust.

Where a principal inherits shares or marries a shareholder, or a relevant investment occurs as a result of a takeover, the investment should be disposed off at the earliest practicable date, being a date at which the transaction would not amount to insider dealing. Similar action should be taken where a beneficial investment is held in a company becoming an audit client. Where the necessary disposal cannot be achieved within the time scale envisaged, the firm should not continue as auditor.

3.4.0 **SELF REVIEW THREAT.**

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

3.4.1 **AREA OF RISK**

- (a) The discovery of a significant error during a re-evaluation of the work of the Chartered Accountant in public practice.
- (b) Reporting on the operation of financial systems after being involved in their design or implementation.

3.4.2 **SAFEGUARD**

Every Chartered Accountant in practice should be aware of this threat. This is particularly important in the case of a sole practitioner. Where practicable the sole practitioner should explore the possibility of peer review for such assurance clients. In the case of big firms, engagement partners should be rotated every four years.

3.4.3 **AREA OF RISK**

Having prepared the original data used to generate records that are the subject matter of the engagement.

3.4.4 **SAFEGUARD**

The audit team that designed the system or generated the records should not be involved in the assurance function. A sole Practitioner shall not audit a system, the design of which he undertook.

3.4.5 **AREA OF RISK**

A member of the assurance team being, or having recently been, a director or officer of that client.

3.4.6 **SAFEGUARD**

That officer should be excluded from the assurance team.

3.4.7 AREA OF RISK

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.

3.4.8 SAFEGUARD

In circumstances where a member of the Assurance team becomes an employee of an assurance client, the safeguard will be that somebody that could resist influences of the new assurance client's employee must lead the Assurance team. Specifically, if an assurance client engages an audit manager, the Assurance team should be led by his equivalent or above in the firm.

3.4.9 AREA OF RISK

Performing a service e.g Consultancy Services, for a client that directly affects the subject matter of the assurance engagement.

3.4.10 SAFEGUARD

The minimum safeguard should be that the person performing that service shall be excluded from the Assurance function. In the case of a sole practitioner, the Firm should choose between the Assurance function or the service.

3.5.0 ADVOCACY THREAT

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

3.5.1 AREA OF RISK

Promoting shares in a quoted entity when that entity is a financial statement audit client.

3.5.2 SAFEGUARD

The Chartered Accountant in public practice is prohibited from such advocacy or he should resign the engagement.

3.5.3 AREA OF RISK

Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.

- 3.5.4. **SAFEGUARD**
The Chartered Accountant in public Practice is prohibited from such advocacy.
- 3.6.0 **FAMILIARITY THREAT**
Examples of circumstances that may create familiarity threats include, but are not limited to:
- 3.6.1 **AREA OF RISK**
A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
- 3.6.2 **SAFEGUARD.**
Exclude the team member concerned for the audit team.
- 3.6.3 **AREA OF RISK**
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.
- 3.6.4. **SAFEGUARD**
Exclude the team member concerned from the audit.
- 3.6.5 **AREA OF RISK**
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.
- 3.6.6 **SAFEGUARD**
The audit team leader should be of commensurate status to resist such influences.
- 3.6.7 **AREA OF RISK**
Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
- 3.6.8 **SAFEGUARD**
If the threat is significant, refuse it.
- 3.6.9 **AREA OF RISK**
Long association of senior personnel with the assurance client.
- 3.6.10 **SAFEGUARD**
Ensure that no audit engagement partner remain in charge of an audit for a period exceeding 5 consecutive years. An audit engagement partner who has ceased to act

under this provision should not return to that role till a period of 4 (5)¹ years has elapsed but it is not precluded from other involvement with the client.

3.7.0 **INTIMIDATION THREAT**

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

3.7.1 **AREA OF RISK**

Being threatened with dismissal or replacement in relation to a client engagement.

3.7.2 **SAFEGUARD**

Ensure that the current audit file complies with all professional standards, guidelines and the relevant laws.

3.7.3 **AREA OF RISK**

Being threatened with litigation. For further information see paragraph 16.1.6

3.7.4 **SAFEGUARD**

- (i) Have transparent and up to date standards, guidelines and comply with the relevant laws.
- (ii) Seek for legal advise or opinion on such specific areas of disagreement with the client.

3.7.5 **AREA OF RISK**

Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

3.7.6 **SAFEGUARD**

- (i) In negotiating fees, it should not be tied specifically to turnover. The emphasis should be the extent of work and the required levels of skills and manpower, time and charge outrates as recommended by the Institute. If therefore, there is a decline in turn over one can then rely on the basis of one's fee above to defend the sustenance of the fee levels.
- (ii) Where the client insists on the reduction of work, prior to the commencement of the assurance function, one should consider disengagement. If however the work has commenced, and the client then insists on the reduction of work, one should consider the qualification of the assurance opinion.

¹ To confirm no 3.6.10 line 3 from Committee.

3.8.0 OTHER EXAMPLES.

A Chartered 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 categorized. In either professional or business relationships, a Chartered Accountant in public practice should always be on the alert for such circumstances and threats.

3.8.1 Examples of safeguards created by the profession, legislation or regulation are described in Chapter 16 of this Code.

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 Chartered Accountant in public practice should exercise judgment to determine how to best deal with an identified threat. In exercising this judgment a Chartered 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.

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

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

- (i) Documented internal policies and procedures requiring compliance with the fundamental principles.
- (ii) Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- (iii) Policies and procedures to monitor and, if necessary, manage the reliance of revenue received from a single client.
- (iv) Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- (v) Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- (vi) Timely communication of a firm's policies and procedures, including any changes to these policies and procedures, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- (vii) Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- (viii) Advising partners and professional staff of those assurance clients and related entities from which they must be independent.
- (ix) A disciplinary mechanism to promote compliance with policies and procedures.
- (x) 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.

In implementing all of the above, a Chartered Accountant should use a checklist, which must be reviewed at regular intervals of every two years.

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

- (a) Involving an additional Chartered Accountant to review the work done or otherwise advise as necessary.
- (b) Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another Chartered Accountant.

- (c) Discussing ethical issues with those charged with governance of the client.
- (d) Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- (e) Rotating senior assurance team personnel.

3.8.4 Depending on the nature of the engagement, a Chartered Accountant in public practice may also be able to rely on safeguards that the client has implemented after review and acceptance. However it is not advisable to rely solely on such safeguards to reduce threats to an acceptable level.

3.8.5 **Safeguards within the client's systems and procedures may include when:**

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

3.9.0 **Review Procedures for Safeguards:**

These are steps taken by firms to ensure that threats to objectivity are recognized, documented and mitigated.

- a) Wherever review procedures indicate that an audit assignment should be accepted or continued only with additional safeguards against loss of objectivity, the engagement partner's decision and the range of safeguards appropriate to the assignment should be subject to independent review by a partner not connected with the engagement.
- b) The Safeguards to be applied should include, as appropriate, rotation of the audit engagement partner and of senior audit staff. In particular the firm should review annually the possible need for the rotation of an audit engagement partner.
- c) A record of all safeguards applied during the review process should be kept.

- d) To the extent that a small firm may find difficulty in implementing the safeguards, principals should set up external consultation arrangements appropriate to their particular circumstances
- e) Where the practitioner's own review indicates that an audit engagement should only be accepted or continued with additional safeguards to protect his independence, he should undertake such consultation as stated in (d) above before proceeding further. The extent of the consultation will vary according to the nature of the problem. In some cases it may be confined to a discussion of principles; in others it may involve an examination of the file or a discussion of personal relationships.
- f) A sole practitioner should not accept or continue appointment as auditor of a company at a time when he is a trustee of a trust holding shares in that company.

3.10.0 **Guidance on some Threats and Safeguards**

3.10.1 **Undue dependence on an Audit Client:**

If the recurring fees from a client company or group of companies constitute a substantial proportion of the fee income of an audit firm, a *self-interest threat* is likely to arise so as to impair objectivity. Detailed discussion on this possible threat is given in paragraphs 16.1.2 to 16.1.3 (a- e).

3.10.2. Audit committees can have an important corporate governance role when they are knowledgeable in audit practices and are independent of client management. There should be regular communication between the firm and the audit committee.

3.10.3. Firms should establish policies and procedures relating to independent communications with audit committees, or others charged with governance. Safeguards within the firm's own systems and procedures may include firm wide safeguards such as the following:

- (a) Firm leadership that stresses the importance of independence and the expectation that members of assurance teams will act in the public interest;
- (b) Policies and procedures to implement and monitor quality control of assurance engagements;
- (c) Documented independence policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the identification and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level;

- (d) Internal policies and procedures to monitor compliance with firm policies and procedures as they relate to independence;
- (e) Policies and procedures that will enable the identification of interests or relationships between the firm or members of the assurance team and assurance clients;
- (f) Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single assurance client;
- (g) Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client;
- (h) Policies and procedures to prohibit individuals who are not members of the assurance team from influencing the outcome of the assurance engagement;
- (i) Timely communication of a firm's policies and procedures, and any changes thereto, to all partners and professional staff, including appropriate training and education thereon;
- (j) Designating a member of senior management as responsible for overseeing the adequate functioning of the safeguarding system;
- (k) Means of advising partners and professional staff of those assurance clients and related entities from which they must be independent;
- (l) A disciplinary mechanism to promote compliance with policies and procedures; and
- (m) Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them; this includes informing staff of the procedures open to them.

3.11.0. **Safeguarding Objectivity**

In order to safeguard their objectivity, members should consider certain matters before deciding whether or not to accept any appointment. The matters to be considered include those under the following headings:

- (a) The expectations of those directly affected or likely to be affected by the work.
- (b) The public interest and its bearing on the work.
- (c) The threat to objectivity, which may arise actually or potentially.

- (d) The safeguards which are or can be put in place, overt or otherwise, to offset the threats.

3.11.1 The responsibility for seeing that the above matters are properly considered resides ultimately, in the case of members in practice, with the engagement partner who takes the primary responsibility for the client concerned. Firms should establish reliable procedures to ensure that the matters are properly addressed. These may include but not limited to:

- (a) The expectations of those directly affected (or likely to be affected by the work) are likely to be concerned about the existence of any relationship or situation affecting a member or firm, or any business or other interest held by the member or firm, which may threaten or appear to threaten objectivity. Accordingly, the member concerned must disclose the relationship, situation or interest to the affected parties.
- (b) The Public Interest should be a factor, which all members should bear in mind when accepting any assignment or appointment.

CHAPTER FOUR

4.1.0 PROFESSIONAL APPOINTMENTS.

4.1.1 Client Acceptance.

Before accepting a new client relationship, a Chartered 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).

4.1.2 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.

4.1.3 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 or reduce them to an acceptable level.

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

4.1.5 Where it is not possible to reduce the threats to an acceptable level, a Chartered Accountant in public practice should decline to enter into the client relationship.

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

4.2.0 Engagement Acceptance.

4.2.1 A Chartered Accountant in public practice should agree to provide only those services that he is certified and competent to perform. Before accepting a specific client engagement, a Chartered 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.

4.2.2. A Chartered 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 but are not limited to:

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

4.2.3 When a Chartered Accountant in public practice intends to rely on the advice or work of an expert, he should evaluate whether such reliance is warranted, by considering factors such as reputation, expertise, resources available and applicable professional and ethical standards, information which may be gained from prior association with the expert or from consulting others.

4.2.4 Discussion

Where an invitation to conduct a statutory audit comes other than directly from the client, the firm should first ensure that it has been properly appointed in accordance with statute and professional requirements. It should be made clear to all interested parties on all relevant documents that the member/firm is acting as principal, with all that the function implies. In those circumstances, the member should deal directly with the client and should render his own fee account.

4.3.0 Changes in a Professional Appointment.

4.3.1 A Chartered Accountant in public practice who is asked to replace another Chartered Accountant in public practice, or who is considering tendering for an engagement currently held by another Chartered Accountant in public practice, should determine whether there are any reasons, professional or otherwise for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles.

4.3.2 The significance of the threats should be evaluated depending on the nature of the engagement. This shall require direct communication with the existing Chartered Accountant to

establish the facts and circumstances behind the proposed change so that the Chartered Accountant in public practice can decide whether or not 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 Chartered Accountant that may influence the decision as to whether or not to accept the appointment.

4.3.3 An existing Chartered Accountant is bound by confidentiality. The extent to which the Chartered Accountant in public practice can and should discuss the affairs of a client with a proposed Chartered Accountant will depend on the nature of the engagement and on:

- (a) Whether or not the client's permission to do so has been obtained; or
- (b) In the absence of specific instructions by the client, an existing Chartered 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 Paragraph 1.2.4 (h) of this Code.

4.3.4 ***Communication - The Procedure of 'Professional Enquiry '***:

- (i) The purpose of finding out the background to the proposed change is to enable the member to determine whether, in all the circumstances, it would be proper for him to accept the assignment. In particular, members nominated as auditors will wish to ensure that they do not unwittingly become the means by which any unsatisfactory practice of the company or any impropriety in the conduct of its affairs may be enabled to continue or may be concealed from shareholders or other legitimately interested persons. Communication is meant to ensure that all relevant facts are known to the member who, having considered them, is then entitled to accept the nomination if he wishes so to do.
- (ii) The need to communicate remains whether or not the existing Chartered Accountant in public practice or adviser intends to make representations to the proprietors, including his statutory right to make representations to the shareholders, and whether or not he still continues to act.
- (iii) Communication of the facts to a prospective auditor or adviser cannot relieve the existing auditor or adviser of his duty to continue to impress on the client his views on any technical or ethical matters which may have led him into dispute with the client, nor does it affect the freedom of the client to exercise his right to a change of auditor or adviser.

4.3.5 When a member is first approached by a prospective client to act or be nominated, he should explain that he has a professional duty to communicate with the existing auditor or adviser.

- 4.3.6 When nominated or asked to act, the member should ask the client to inform the existing auditor or adviser of the proposed change and, at the same time, to give the latter written authority to discuss the client's affairs with the member. The member should then write to the existing Chartered Accountant or adviser, seeking information, which could influence his decision as to whether or not he may properly accept the appointment.
- 4.3.7 If the client fails or refuses to grant the existing Chartered Accountant or adviser permission to discuss the client's affairs with the proposed successor, the existing Chartered Accountant or adviser should report that fact to the prospective Chartered Accountant or adviser who should not accept nomination/appointment.
- 4.3.8 The existing Chartered Accountant or adviser should answer without delay the communication from the prospective Chartered Accountant. If there are no matters of which the latter should be aware, the existing Chartered Accountant or adviser should write to say that this is the case. If, however, there are such matters (see paragraph 4.3.16 below) he should inform the prospective successor of those facts within his knowledge of which, in his opinion, the latter should be aware. It is not sufficient to state that unspecified facts exist. The existing Chartered Accountant or adviser might prefer to explain these facts orally and the prospective Chartered Accountant or adviser should be prepared to confer with the existing Chartered Accountant or adviser if the latter so desires, and each should make his own record of such a discussion.
- 4.3.9 If an issue of conflicting viewpoints between the client and himself has been raised by the existing Chartered Accountant in his reply, the prospective successor should discuss the conflict with the client and satisfy himself either that the client's view is one which he can accept as reasonable or that the client will accept that the incoming chartered Accountant or adviser might have to express a contrary opinion.
- 4.3.10 Where the existing Chartered Accountant or adviser does not respond within a reasonable time, the prospective successor should endeavour to contact the existing Chartered Accountant by some other means, for instance, by telephone, facsimile or e-mail. Should this fail, and where the prospective successor has no reason to believe that there are untoward circumstances surrounding the change, he should send a final letter by recorded delivery service stating that unless he receives a reply within a specified time he will assume that there are no matters of which the existing Chartered Accountant is aware that should be brought to his attention. A member who accepts nomination in such circumstances is not precluded from complaining to the Institute that the existing Chartered Accountant did not respond to his enquiry letter.
- 4.3.11 If the prospective Chartered Accountant is satisfied that he can properly act, and is prepared to accept nomination/appointment, he should so inform the client in writing.
- 4.3.12 Where the member decides to accept nomination/appointment having been given notice of any matters, which are the subject of contention between the existing Chartered Accountant and the client, he should be prepared, if requested to do so, to demonstrate to the Institute that proper

consideration has been given by him to those matters and that he believes that whatever threats exist they had been reduced to an acceptable level. Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, both the existing and the proposed incoming Chartered Accountant in public practice should, unless there is satisfaction as to necessary facts by other means, decline the engagement.

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

4.3.14 *Statutory Provisions*

Firms must adhere to the statutory provisions relating to any change in an audit appointment especially those contained in Sections 362 to 366 of Companies and Allied Matters Act. Particularly the proposed Chartered Accountant should ensure that the previous Chartered Accountant has validly vacated office.

4.3.15 The matters referred to above with respect to questions on need to be aware of certain reasons why consent should not be granted that would, where relevant, include the following:

- (a) Reasons for the change advanced by the client of which the existing Chartered Accountant is aware are not in accordance with the facts (as understood by the latter);
- (b) The proposal to displace the existing Chartered Accountant arises in his opinion because he has carried out his duties in the face of opposition or evasion(s) in which important differences of principle or practice had arisen with the client.
- (c) The client, its director, or employees may have been guilty of some unlawful act or default, or that any aspect of their conduct which is relevant to the carrying out of an audit or assignment ought, in the opinion of the existing Chartered Accountant to be investigated further by the appropriate authority;
- (d) The existing Chartered Accountant has unconfirmed suspicions that the client or its directors or employees have defrauded the Revenue authorities (see paragraph 4.4.3. regarding privilege);
- (e) The existing Chartered Accountant has serious doubts regarding the integrity of the directors and/or senior managers of the client company;

- (f) The client, its directors, or employees have deliberately withheld information required by the existing Chartered Accountant or adviser for the performance of his duties or have limited or attempted to limit the scope of his work;
- (g) The existing Chartered Accountant proposes to bring to the attention of members or creditors circumstances surrounding the proposed change of auditors in accordance with S.363 (1) (2) (a) (b) of the Companies and Allied Matters as amended.

4.3.16 The incumbent should neither refuse to communicate, nor delay his reply on the grounds that:-

- (a) A prospective Auditor has obtained nomination in contravention of this guidance; or
- (b) The incumbent Auditor has a genuine belief, whether justified or not, of having been unfairly treated by the client.

4.4.0 ***Further Points - 'Unacceptable Reasons'***

4.4.1 ***Unpaid Fees***

A member in public practice should not accept an audit assignment hitherto carried out by another member, without first ensuring that the other member has been properly removed from office as auditor and that all outstanding fees due to the other member have been fully paid.

4.4.2 ***Confidentiality***

The prospective Auditor should ordinarily treat in confidence any information provided by the existing Auditor. However, it may be essential to the fulfillment of a prospective Auditor's obligations that he should disclose such information. It may, for example, be unavoidable for the prospective Auditor to disclose to officers or employees of the client matters brought to his attention by the predecessor firm, which needs to be properly investigated. Such disclosure should be no wider than is necessary.

4.4.3 ***Defamation***

It is likely that an existing Auditor who communicates to a prospective successor, matters damaging to the client or to any individual concerned with the client's business will have a strong measure of protection were any action for defamation to be brought against him, in that the communication will be protected by qualified privilege. This means that he 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. The chances of an incumbent being held to have acted maliciously are more provided that:

- a) he states only what he sincerely believes to be true; and

- b) he does not make reckless imputations against a client or individual connected with it which he can have no reason for believing to be true.

4.4.4 ***Joint Auditor***

A member whose firm 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 outgoing joint auditor.

4.4.5 ***Vacancy***

A member whose firm is invited to accept nomination on the death of a sole practitioner Auditor should endeavour to obtain such information as he may need from the latter's alternative (where appropriate), the administrators of the estate or other sources.

4.4.6 ***Transfer of Books and Papers***

A replaced auditor or adviser should transfer promptly to the client, or to his successor after the latter has been duly appointed, all books and papers which are in his possession and which belong to the client unless he is exercising a lien thereon for unpaid fees. *Members 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 article of association of the company, have to be available for public inspection. Members' attention is drawn to the Statement on fees. See paragraph 7.2.0 on fees.*

4.4.7 ***Cooperation with a Successor***

The incoming Auditor often needs to ask his predecessor for information as to the client's affairs, lack of which might prejudice the client's interests. Such information should be promptly given and, unless there is good reason to the contrary, such as a significant amount of work involved, no charge should be made.

4.4.8 ***Additional Work***

A member invited to undertake recurring or non-recurring work, which is additional to and related to continuing work carried out by another Chartered Accountant or adviser should normally notify that other Chartered Accountant of the work he has been asked to undertake.

Discussion

- (a) It is generally in the interest of the client that the existing auditor be aware of the nature of the additional work being undertaken. The existing Chartered Accountant will be provided with the opportunity to communicate with the member to provide information, lack of which might otherwise prevent the additional work from being carried out effectively. Additionally, such notification could affect the way an

existing Chartered Accountant discharges his continuing responsibilities to his client.

- (b) Notification should always be given to the existing Chartered Accountant.
- (c) Provision of all opinion on the application of accounting standards or principles clearly requires particular sensitivity to avoid adversarial positions between an Auditor and other Chartered Accountants wherever possible.

CHAPTER FIVE

5.0.0 CONFLICT OF INTEREST

- 5.1.1 A Chartered 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 Chartered 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 Chartered 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.
- 5.1.2 A Chartered 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 Chartered Accountant in public practice has any business interests, or 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.
- 5.1.3 The following additional safeguards should also be considered:
- (a) The use of separate engagement teams.
 - (b) Procedures to prevent access to information (e.g. strict physical separation of such teams, confidential and secure data filing).
 - (c) Clear guidelines for members of the engagement team on issues of security and confidentiality.
 - (d) The use of confidentiality agreements signed by employees and partners of the firm.
 - (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- 5.1.4 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 Chartered

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.

- 5.1.5 Where a Chartered 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 with-held 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.

CHAPTER SIX

6.0.0 SECOND OPINIONS

- 6.1.0 Situations where a Chartered Accountant in public practice is asked to provide a second opinion on the application of accounting and taxation, 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 Chartered Accountant, or is based on an 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 opinion.
- 6.1.1 When asked to provide such an opinion, a Chartered 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 or reduce them to an acceptable level. Such safeguards may include seeking client permission to access all relevant information from the existing Chartered Accountant or other source.
- 6.1.2 If the company or entity seeking the opinion will not permit communication with the existing Chartered Accountant, a Chartered Accountant in public practice should decline the engagement.

CHAPTER SEVEN

7.0.0 PROFESSIONAL FEES AND OTHER TYPES OF REMUNERATION

This Statement applies only to practising members, affiliates and, where appropriate, employees of practising firms.

7.1.0 **Introductory Note**

The Institute states that a member is entitled to charge for his services.

- (a) such specific fee as agreed with the client or;
- (b) a fee calculated in accordance with any agreement with the client; or
- (c) in the absence of an agreement, a fee calculated by reference to the custom of the profession or in accordance with regulations of the Institute in force at the time the fees were charged.

7.1.1 In the last event it is customary, where the basis of the fee has not been agreed with a client, that a member should charge a fee which is fair and reasonable having regard to:

- (a) the seniority and professional expertise of the persons necessarily engaged in the work;
- (b) the time expended by each;
- (c) the degree of risk and responsibility which the work entails;
- (d) the priority and importance of the work to the client together with any expenses properly incurred.

7.1.2 The Institute's minimum charge-out rates in respect of fees for professional services are intended to set a benchmark for such fees below which members are not ordinarily expected to charge.

7.1.3 When entering into negotiations regarding professional services, a Chartered Accountant in public practice may quote whatever fee deemed to be appropriate. 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.

- 7.1.4 A Chartered Accountant in public practice may receive a referral fee or commission relating to a client as well as a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. However accepting such a referral fee or commission may give rise to self-interest threats to objectivity, and professional competence and due care.
- 7.1.5 A Chartered Accountant in public practice shall not pay or receive a referral fee to obtain a client, for example, where the client continues as a client of another Chartered Accountant in public practice but requires specialist services not offered by the existing Chartered Accountant. The payment of such a referral fee may also create a self-interest threat to objectivity and professional competence and due care.
- 7.1.6 A Chartered 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 this paragraph.
- 7.2.0 **Fee Quotation and Estimates.**
A member should inform a client in writing prior to commencement of any engagement the basis upon which any fee he proposes to charge for his services will be calculated and, on request and where practicable, the level of fees likely to be charged for any assignment.
- 7.2.1 **Discussion**
The member should, at the earliest opportunity, discuss and explain the basis on which fees will be calculated and, where practicable, the estimated initial fee. The arrangements agreed should be confirmed in writing, normally in an engagement letter, including a confirmation on any estimate, quotation or other indicators, 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 member should confirm the initial discussion in writing to the client as soon as practicable.
- 7.2.2 **Fee proposals** should be made only after proper consideration of the nature of the client's business, the complexity of its operation and the work to be performed.
- 7.2.3 The fact that a member has quoted a fee lower than another is not improper provided care is taken to ensure that the client has a full and complete understanding of.
- (a) the services to be covered by the fee; and
 - (b) the basis on which the fee is to be determined both for the current and future years.

7.2.4 **Audit Work**

Firms should not quote for new work a level of fees which is lower than that charged by an existing auditor or quote by tender, levels of fees which they have reason to believe are significantly lower than those quoted by other tendering firms as their objectivity could in those circumstances be threatened. Such firms should ensure that their work complies with Auditing Standards and Guidelines and, in particular, quality control procedures. In the event of a complaint being made to the Institute (which might have arisen as a result of a Professional Practice Monitoring Committee's inspection), where fees were a feature in obtaining or retaining the work, firms should be prepared to demonstrate that:

- (a) the work done was in accordance with Auditing Standards; and
- (b) the client was not misled as to the basis on which fees for the current and subsequent years were to be determined.

7.3.0 **Fee Information and Disputes**

A member 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.

7.3.1 Where fees rendered exceed, without prior agreement, a quotation or estimate or indication of fees given by a member by more than a reasonable amount, the member should be prepared to provide the client with a full explanation of the excess and to take steps to resolve speedily any dispute which arises.

7.3.2 A member whose fees have not been paid may be entitled to retain certain books and papers of a client upon which he has been working by exercising a lien and may refuse to pass on information to the client or his successor Chartered Accountant, until those fees are paid. However, a member who so acts should be prepared to take reasonable steps to resolve any dispute relating to the amount of that fee. The incoming Auditor has a duty to assist in the recovery of such fees within a reasonable time.

7.4.0 **Percentage and Contingent Fees**

Unless the circumstances dictate otherwise or the client clearly objects fees should normally be charged on time rates in respect of audit work, reporting assignment and similar non-audit roles. In all circumstances, a member in public practice should refrain from quoting or charging fees for assurance work, reporting assignment and similar non assurance roles using criteria other than the basis or bases approved by the Institute.

7.4.1 **Discussion**

In bankruptcies, liquidations, receiverships, administrations, voluntary arrangements and similar work the remuneration may, by statute or tradition, be based on a percentage of realizations or a percentage of distribution. Consequently, it may not be possible to negotiate a fee in advance or base it on the principle in paragraph 7.4.0 above.

- 7.4.2 In some circumstances, such as advising on a management buy-out, the raising of venture capital, acquisition search or sales mandates, fees cannot realistically be charged save on a contingency basis; to require otherwise would, in certain cases, 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.
- 7.4.3 Where work is subject to a fee on a contingency, percentage or similar basis, the capacity in which a member has worked and the basis of his remuneration should be made clear in any document prepared by the member in contemplation that a third party may rely on it.

CHAPTER EIGHT

8.0.0 **MARKETING PROFESSIONAL SERVICES.**

8.1.0 When a Chartered 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-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 the principle.

8.1.1 A Chartered Accountant in public practice should not bring the profession into disrepute when marketing professional services. The Chartered Accountant in public practice should be honest and truthful and should not:

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

If the Chartered Accountant in public practice is in doubt whether a proposed form of advertising or marketing is appropriate, the Chartered Accountant in public practice should consult through the Registrar/Chief Executive of the Institute of Chartered Accountants of Nigeria.

CHAPTER NINE

9.0.0 THE NAMES AND LETTERHEADS OF PRACTISING FIRMS

9.1.0 For the purpose of interpretation, the term 'firm' includes a partnership, and a sole practitioner, the main business of which is the provision of services customarily provided by chartered accountants, while the term 'letterhead' means any part of the firm's notepaper and documents used by the firm for communicating with clients or other parties.

9.1.1 Subject to the following guidance, a member in public practice should refrain from practising in or under a name which does not comprise proper name(s) only, such name(s) being that or those of one or more of the current or former proprietor(s) and/or partner(s) of the Firm.

9.1.2 A practice name shall be consistent with the dignity of the profession in the sense that it shall not project an image inconsistent with that of a professional practice bound to high ethical and technical standards.

9.1.3 A practice name shall not be misleading.

9.1.4 *Discussion*

(a) It would be misleading for a firm with very few offices to describe itself as 'international' merely on the ground that one of them was overseas. Similarly, it would be misleading for a sole practitioner to add the suffix 'and Associates' to the name of his practice unless formal arrangements were agreed with two or more consultants or firms.

(b) A practice name would be misleading if in all the circumstances there was a real risk that it could be confused with the name of another firm, even if the member(s) of the practice could lay justifiable claim to the name.

(c) It has been the custom of the profession for members to practice under a firm's name based on the names of past or present members of the firm itself or of a firm with which it has merged or amalgamated. A practice name so derived will usually be in conformity with this Code of ethics

(d) There is no objection to membership of a practicing group being indicated on the firm's notepaper or elsewhere in proximity to the practice name. However, the name of such a firm should be clearly distinguishable from the name of an associated firm or group. Thus, it would be misleading for a member of a practicing group to bear the same name as the group, but there could be no objection to a firm practicing

under its own name 'as a member' of (a named) accountancy group.

9.1.5 *Use of the Description 'Chartered Accountants'*

- a) Use of the description 'Chartered Accountants' is governed by the law establishing the Institute i.e. the ICAN Act . A Chartered Accountant in public practice must have all member partners to enable the firm describe itself (practice) as "Chartered Accountants".
- b) Firms entitled to use the description 'Chartered Accountants' are encouraged to do so, on their letterheads, in advertisements and generally. A firm, which describes itself as 'Chartered Accountants' on its notepaper may include a list of the services it particularly wishes to offer.

9.1.6 *Discussion: Legal Requirements*

A practice letterhead must comply with partnership and company law as appropriate.

9.1.7 *Discussion: Overseas Firms*

Overseas firms are required to comply with any local laws as to practice names so far as overseas offices are concerned. Subject thereto, they may describe themselves in any manner conformable to the practice of the profession locally provided that the principles set out in the paragraphs 9.1.2-9.1.5 above are observed.

9.1.8 *Discussion: New and Changed Names*

Save where the name of a firm is based on the names of past or present members of the firm itself or of a firm with which it has merged or amalgamated, when a new firm is to be set up and when it is desired to change the name of an existing firm, members are advised, as a means of ensuring compliance with these rules, to consult the Institute as to the propriety of the proposed name.

9.1.9 *Persons Named on Letterheads*

- (a) It should be clear from the letterhead of a practice whether any person named thereon, other than persons named only in the name of the firm, is a partner of the practice.
- (b) No person named on the letterhead of a practice should be described by a title, description or designatory letters to which he or she is not entitled.

CHAPTER TEN

10.0.0 **GIFTS AND HOSPITALITY**

10.1.0 A Chartered Accountant in public practice, or an immediate or close family member, may be offered gifts and hospitality from a client. However 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.

10.1.1 The nature, value and intent behind the offer, determine the significance of the threat therein. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider clearly insignificant are made to a Chartered 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 Chartered Accountant in public practice may generally conclude that there is no significant threat to compliance with the fundamental principles.

CHAPTER ELEVEN

11.0.0 CUSTODY OF CLIENT ASSETS

11.1.1 A Chartered 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 Chartered Accountant in public practice holding such assets.

11.1.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is self-interest threat to professional behavior and may be a self-interest threat to objectivity arising from holding client assets. To safeguard against such threats, a Chartered 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 any gains generated, to any persons entitled to such accounting;

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

11.1.2 In addition, a Chartered Accountant 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 or obtaining by false pretences. As part of client and engagement acceptance procedures for such services the Chartered Accountant in public practice should make appropriate inquiries about the source of such assets and should consider their legal and regulatory obligations. They should also seek legal advice, if in doubt.

CHAPTER TWELVE

12.0.0 INDEPENDENCE-ASSURANCE ENGAGEMENTS

12.1.0 Objective and Structure of this chapter

12.1.1 The objective of this chapter is to assist firms and members of assurance teams in:

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

In cases where 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 refuse to continue the assurance engagement.

12.2.0 This chapter 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 12.4.0 onwards). Professional judgment 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 exhaustive.

12.3.0 Certain examples in this section indicate how the framework is to be applied to a financial statements audit engagement for a quoted entity. When a firm chooses not to differentiate between quoted entities and other entities, the examples that relate to financial statement audit engagements for quoted entities should be considered to apply to all financial statement audit engagements.

12.4.0 When threats to independence are not clearly insignificant, the firm can decide to accept or continue the assurance engagement. This decision should be documented and should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

- 12.5.0 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threat to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest as a result of their business and their size, their corporate status and their wide range of stakeholders. Examples of such entities may include quoted companies, financial institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of quoted entities, certain paragraphs in this section deal with additional matters that are relevant to the financial statement audit of quoted entities. Consideration should be given to the application of the framework in relation to the financial statement audit of quoted entities to other financial statement audit clients that may be of significant public interest.
- 12.6.0 Corporate governance is enhanced where the independence of client management assist the Board of Directors in satisfying themselves that a firm is independent in carrying out its audit role. There should be regular communication between the firm and the audit committee (or other governance body if there is no audit committee) of quoted entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence.
- 12.7.0 Firms should establish policies and procedures relating to independence, Communications with audit committees, or others charged with governance of the client. In the case of the financial statement audit of quoted entities, the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the financial statement audit client that in the firm's professional judgment may reasonably be thought to bear on independence. 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.

CHAPTER THIRTEEN

13.0.0 **ASSERTION BASED - ASSURANCE ENGAGEMENT**

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

13.1.0 In an assertion based assurance engagement, the Chartered 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.

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

13.1.2 In an assertion-based assurance engagement, which includes a financial statement audit 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.

13.1.3 In a direct reporting assurance engagement the Chartered 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.

13.2.0 **Independence**

13.2.1 **Independence of Mind**

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

13.2.2 ***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 skepticism had been compromised.

- 13.2.3 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 judgment 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.
- 13.2.4 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. An exhaustive list of situations that create threats cannot be provided. However a conceptual framework to include but not limited to the following: frame works are listed below.
- 13.3.0 **A Conceptual Approach to Independence**
- 13.3.1 Members of assurance teams, firms and network firms are required to apply the conceptual framework contained in part 1 (Fundamental Principles) 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 or not relationships between individuals outside of the assurance team and the assurance client create threats to independence.
- 13.3.2 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.
- 13.3.3 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: whether or not it is a financial statement audit engagement or another type of assurance engagement; and in the latter case, 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 or not it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and if a particular individual should be a member of the assurance team.
- 13.4.0 **Comments On Assertion-based Assurance Engagements**

13.4.1 Financial statement audit engagements are relevant to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for financial statement audit clients, the members of the assurance team, the firm and network firms are required to be independent of the financial statement audit client. 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 (the financial statements). 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 (the financial position, financial performance and cash flows).

13.4.2 ***Other Assertion-based Assurance Engagements***

In an assertion-based assurance engagement where the client is not a financial statement audit client, 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.

13.4.3 In the majority of assertion-based assurance engagements, that are not financial statement audit 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 Chartered 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 (Environmental impact assessment).

13.4.4 In those assertion-based assurance engagements that are not financial statement audit 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.

13.4.5 Direct Reporting Assurance Engagements

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).

CHAPTER FOURTEEN

14.0.0 RESTRICTED USE REPORTS

- 14.1.0 In the case of an assurance report in respect of a non-financial statement audit client 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 as in the terms of reference. Details of the terms of reference should highlight any threats upon review by the users. 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 therefore the job should not be accepted.

CHAPTER FIFTEEN

15.0.0 MULTIPLE RESPONSIBLE PARTIES

15.1.1 In some assurance engagements, whether assertion-based or direct reporting, that are not financial statement audit engagements, there might be several responsible parties. In such engagements, in determining whether it is necessary to apply the provisions in this section to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is other than clearly insignificant in the context of the subject matter information. This will take into account factors such as:

- (a) The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- (b) The degree of public interest associated with the engagement. If the firm determines that the threat to independence created by any such interest or relationship with a particular responsible party would be clearly insignificant it may not be necessary to apply all of the provisions of this section to that responsible party.

15.2.0 Other Considerations

In the case of a financial statement audit client, the threats, safeguards including independence applicable to an assurance client are also applicable to related entities where the assurance client is a quoted entity.

15.2.1 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, this obligation to evaluate arises when a firm, or a member of the assurance team knows, or could reasonably be expected to know, of circumstances that might compromise independence.

15.2.2 throughout this chapter, 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.

15.3.0 Engagement Period

15.3.1 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 in the case of the financial audit client, when the firm is appointed or re-appointed at the Annual General Meeting (AGM). In the case of the non-financial audit client, the engagement begins when they are appointed to perform a specific assignment, and ends at the issuance of the final assurance report.

15.3.2 In the case of a financial statement audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes a financial statement audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements, but prior to the acceptance of the financial statement audit engagement; or
- (b) Previous services provided to the audit client. Similarly, with non-financial statement audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence. It is imperative that the statutory provisions, relating to any change in an audit appointment, in particular those contained in Sections 362 to 366 of Companies and Allied Matters Act 1990, and in particular that the proposed auditor should ensure that the previous auditor has validly vacated office, be adhered to.

15.3.3 A non-assurance service provided to an un-quoted financial statement audit client will not impair the firm's independence when the client becomes a quoted entity provided:

- (a) The previous non-assurance service was permissible under this section for unquoted financial statement and clients.
- (b) The service will be terminated within a reasonable period of time of the client becoming quoted entity, if they are impermissible under this section for financial statement audit client that are quoted entities and
- (c) The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous service or reduce them to an acceptable level.

CHAPTER SIXTEEN

16.0.0 GUIDANCE ON SOME SPECIFIC ISSUES

INTRODUCTION:

The examples below describe specific circumstances and relationships that may create threats to the fundamental principles, the safeguards that may be appropriate to eliminate them or reduce them to an acceptable level in each circumstance. The examples are not all inclusive, however they illustrate how the framework applies to assurance clients. The examples should be read in conjunction with Parts Two and Three of this code.

16.1.0 Guidance on specific areas of threat:

16.1.1 *Area of Risk - Undue Dependence on an Assurance Client*

- (a) A new firm seeking to establish itself or an established firm reducing its activities may not be able to comply with the 25% minimum criteria, at any event in the short term. Such firms should take particular care to implement the safeguards referred to in (c) below.
- (b) Individual engagement partners within a firm may also be faced with a personal threat because their personal portfolio is dominated by a single client, on whom they might become so dependent as to lose their objectivity.
- (c) The fees from a number of one-off assignments could contribute to a problem of undue dependence. One-off assignments, which by their special and repetitive nature become regular assignments, should be regarded on the same basis as recurring fees.

16.1.2 *Safeguards in relation to undue dependence on an audit client*

- (a) A member shall not accept an audit appointment or similar reporting assignment from an entity, which regularly provides him, his firm or an office within the firm with an unduly large proportion of his or its gross practice income. An unduly large proportion would normally be 25 per cent.
- (b) Where a member is dependent for his income on the profits of any one office within a firm and the gross income of that office is regularly dependent on one client or a group of connected clients for more than 25 per cent of its gross fees, a partner from another office should take final responsibility for any report

- (c) In addition to paragraph 3.3.2 the Chartered Accountant should be aware that the discussion therein, indicates only the extreme beyond which the public perception of a member's objectivity is likely to be at risk. It is the duty of the firm regularly to satisfy itself that it is not open to criticism in respect of any audit engagement, having regard to all the circumstances of the case. For this purpose a firm should, before accepting an audit appointment and as part of its annual review, carefully consider against the criteria set out in this Statement the propriety of accepting or retaining each audit client or group of connected clients the fees from which for audit and other recurring work, excluding one-off assignments, represent 25 per cent or more of the gross practice income or of the gross earned income of a member practicing part time.

16.1.3 ***Area of risk -Loans to or from a client; guarantees; overdue fees***

- (a) A self-interest threat will arise if an audit firm or any principal of the firm should directly or indirectly make any loan to, or receive a loan from, a client or give or accept any guarantee in relation to a debt of the client, firm or principal.
- (b) An audit firm or a principal of the firm should not receive any loan from a client. This is because the size of the perceived self-interest threat arising in such circumstance is generally seen as being too great to be offset by all available safeguards, where a firm or principal makes any loan to a client. This restriction does not normally apply to accounts in credit with a client-clearing bank or similar financial institution.
- (c) The above paragraph is not intended to prevent a loan, overdraft or home mortgage being accepted from an audit- client financial institution in the normal course of business and all normal commercial terms by a principal or employee, unless:
- (i) the loan is applied so as to subscribe to partnership capital; or
 - (ii) the principal is an engagement partner in relation to the client.
- (d) ***Overdue fees***
Similar considerations as in (c) above apply where there are significant overdue fees from a client or group of connected clients.
- (e) ***Safeguards in relation to overdue fees***
Before work is commenced on an audit where there are overdue fees, a review of the situation should be undertaken by a principal not involved in the audit

to ascertain whether the overdue fees, taken together with the fees for the current assignment, could be regarded as a significant loan. Where the fee is material or significant, the self-interest threat created would be so significant that no safeguard could reduce it to an acceptable level.

16.1.4 ***Area of risk - hospitality or other benefits***

A self-interest threat and familiarity threat arises where anyone in the firm receives a benefit by way of goods or services or hospitality from a client.

16.1.5 **SAFEGUARD**

Gifts or hospitality should not, therefore, be accepted by a firm or by anyone closely connected with it unless the value of any such benefit is clearly insignificant, otherwise threats to independence cannot be reduced to an acceptable level

16.1.6 ***Area of risk - actual or threatened litigation***

(a) Where litigation takes place, or appears likely to take place, between an audit firm and a client, both a self-interest threat and an intimidation threat may arise.

(b) These threats are likely to call into question the objectivity of the auditor and his ability to report fairly and impartially on the company's accounts. At the same time, the existence of such action or threat of action could affect the willingness of the management of the company to disclose necessary information to the auditor.

(c) The issue by the client of a writ for negligence against the auditor would be considered to impair the latter's objectivity. The inclusion in any litigation of allegations against the client of fraud or deceit made by the auditor may also impair objectivity. Such impairment may not necessarily result when the litigation arises solely out of a fee dispute.

(d) It is not possible to specify precisely the point at which it would become improper for a firm to continue as auditors.

16.1.7 **SAFEGUARDS**

A firm should have regard to circumstances where the public might perceive litigation, e.g. where publicity is given to matters adversely affecting a quoted or other public interest company and reference is made to the company's reliance on accounts or other financial statements prepared by the firm.

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

- (a) Disclose to the audit committee or others charged with governance, the extent and nature of the litigation;
- (c) If the litigation involves a member of the Assurance team, remove the individual from the team;
- (d) Involve an additional Chartered Accountant in the Firm who was not a member of the assurance team, to review the work done and advise as necessary.
If the safeguards above do not reduce the threat to an appropriate level, the only option available to the Firm is to withdraw from, or refuse to accept the assurance engagement.

16.1.8 ***Area of risk - Participation in the affairs of a client.***

Participation in the affairs of a client is likely to lead to self-interest threats, which are either in practice too great to be over-ridden by available safeguards, or is likely to appear so to interested parties.

Self-interest threats can also arise if an officer or senior employee of an audit client is closely connected to the principal of the audit firm. For the purposes of this paragraph only, the definition of "closely connected includes, also adult children and their spouses, brothers and sisters; their spouses, and any relative to whom regular financial assistance is given or who is otherwise indebted financially to the principal.

16.1.9 **SAFEGUARD**

- (a) There are statutory prohibitions on a firm acting as auditor. For instance, Section 358 (2) of the Companies and Allied Matters Act, 1990 as amended prohibits an officer or employee of a company or a partner an employee of such a person, from accepting appointment as auditor of that company.
- (b) In general, no principal or employee of an audit firm may be an officer or employee of a client, and should not have held such a position in a period so closely preceding the firm's appointment as to constitute a significant threat of self-interest or self- review.
- (c) A member should not personally take part in the conduct of the audit of a company if he has, during the period upon which the report is to be made or at any time in the two years prior to the first day thereof, been an officer (other than auditor) or employee of that company.

16.1.10 ***Area of risk - principal or senior employee joining client***

- (a) The objectivity of a firm reporting on a company (or other entity) may be threatened, or appear to be threatened, if an officer of the audit client has been a principal or senior employee of the firm.
- (b) Threats to the firm's objectivity of a self-interest nature may arise where there remain significant connections between the officer and his former firm, and appropriate action should be taken to ensure that objectivity is not impaired. For example:
 - (i) the officer should not derive retirement or other benefits from the firm unless these are made in accordance with pre-determined arrangements that cannot be influenced by any remaining connections between the officer and his former firm. In addition, any amount owed should not be such as to appear likely to threaten the firm's objectivity; and
 - (ii) the officer should not participate or appear to participate in the firm's business or professional activities. Inclusion on the notepaper of the firm is an indication of such participation and the provision of office accommodation or secretarial or information technology support by the firm may indicate such participation.
- (c) Additionally, the firm's objectivity may be threatened because of participation in the conduct of an audit by a principal or senior employee in the knowledge that he is to join the client.

16.1.11 ***Safeguards in relation to principal or senior employee joining audit client***

The firm should make appropriate provisions in its procedures for further safeguards to include compliance with the relevant provision of the labour law.

16.1.12 ***Area of risk - beneficial interest in shares and other investments. Shares and Shareholdings.***

Reference to shares and shareholdings should be taken to include debenture and other Loan stock and the equivalent, and rights to acquire shares, debenture or other loan stock. Shareholdings also include options to purchase or sell such securities. A person's holdings include holdings by a nominee on behalf of that person or by a trust created by that person for his or her personal benefit. Shareholdings in parent, subsidiary or associated companies of a Client Company should normally be regarded on the same basis as shareholdings in the Client Company itself. However, if the firm is an auditor only of a Company or Companies which, taken together, constitute an insignificant part of a group, independence of the parent Company, etc is not required.

16.1.13 ***SAFEGUARDS***

- (a) Where an employee, or a person closely connected with an employee, has such a beneficial interest, the employee should not take part in the audit of the client company.
- (b) A principal in an audit firm may invest in unit trusts or in an Investment trust, provided that the firm does not report upon the trust.
- (c) Where a principal inherits shares or marries a shareholder, or a relevant investment occurs as a result of a take-over, the investment should be disposed of at the earliest practicable date, being a date at which the transaction would not amount to insider dealing. Similar action should be taken where a beneficial investment is held in a company becoming an audit client. Where the necessary disposal cannot be achieved within the time scale envisaged, the firm should not continue as auditor.

16.1.14 ***Area of risk - trusteeships***

- (a) If a principal or employee of the firm or a person closely connected with it either acts as a trustee of a trust, which holds shares in a client company, a self-interest and/or familiarity threat will arise. The threat to objectivity is potent where the shareholding is in excess of 5 per cent of the issued share capital of the company or of the total assets of the trust.
- (b) Where the trust holds shares in a company and the holding is in excess of 5 per cent of the issued share capital of the company, or the trust's aggregate investment in the company exceeds 5 per cent of the total assets comprised in the trust, the firm should not accept or continue appointment as auditors. The shareholdings (in relation to the issued share capital of the company) of trusts of which principals or members of staff of the firm are trustees should be regarded as aggregated for the purposes of this paragraph.
- (c) The restrictions and aggregations contained in the preceding paragraph (b) above do not necessarily apply in the case of staff member trustees, where the trust is of a personal or family nature and is not client-related.

16.1.15 ***Safeguards in relation to trustee Holdings***

- (a) These include the following:
 - (i) A trustee, or someone with whom a trustee is closely connected should not act as the principal or person responsible for the audit of the company in which the trustee is a shareholder.

- (ii) A sole practitioner should not accept or continue appointment as an auditor of a trustee of a trust holding shares in that company unless he has made arrangements to consult externally with another member and that consultation confirms the propriety of accepting or continuing appointment.
 - (iii) The disclosure of the trust investment in the accounts, in the Directors' Report or in the Audit Report, save in the case of trustees shareholdings where the aggregate of all relevant shareholdings is less than one per cent of the issued capital of the company.
 - (iv) Where a close personal relationship develops in the course of a trustee shareholding, a member should have regard to the review procedures recommended in paragraphs 3.3.14 of chapter three (above).
- (b) The above considerations apply where a person closely connected with the firm is a director or employee of a trust company, which acts as trustee of a trust holding investments in a company on the accounts of which the firm reports.

16.1.16 ***Area of risk-nominee shareholdings; 'bare trustee' shareholdings***

Similar considerations to those applying to trustee shareholdings (see above) apply also in the case of nominee shareholdings and 'bare trustee' shareholdings.

16.1.17 ***Area of risk - connections; associated firms; influences outside the practice employees***

- (a) It should be recognized that each of the threats dealt with in paragraphs 3.2.0. to 3.2.13. may arise either in relation to a principal of the firm, or in relation to a close connection such as a member of his immediate family (see paragraph 16.2.1 below). Threats can also arise because of pressures exerted upon a firm by an associated firm or an outside source introducing business, such as bankers, solicitors, or government.
- (b) The threat to objectivity will depend upon the closeness of relationships and associations, the strength of an associate's interest in the firm retaining a client, and the extent to which the introduction of business by an outside source is able to affect the firm's fee income.
- (c) The audit firm should not employ any person on the audit who would by any of the foregoing principles be personally excluded from the role of auditor.

16.1.18 Safeguards in relation to connections etc.

- (a) The possibility of a threat to objectivity arising in such circumstances should be borne in mind and provided for in the firm's review machinery. All the safeguards quoted in paragraphs 3.2.2 to 3.2.13 above are of potential relevance.
- (b) It should be borne in mind that the threat to objectivity will be less where any connection is with a junior member of staff or with a member of the firm who is not personally engaged on the audit in question, and where his officer is distant from the office conducting the audit.

16.1.19 Area of risk - provision of other services to audit clients

- (a) There are occasions where objectivity may be threatened or appear to be threatened by the provision to an audit client of services other than pure audit work. All the safeguards described in paragraphs 3.2.2 to 3.2.13 may have an application to the provision of other services.
- (b) There is no objection to a firm providing advisory services to a company, which is additional to the audit. Care must be taken to ensure that the audit firm does not perform or be perceived to perform management functions or make management decisions. It is economic, in terms of skill and effort for Chartered Accountants in public practice to be able to provide other services to their clients since they already have a good knowledge of their business. Many companies (particularly smaller ones) would be adversely affected if they were denied the right to obtain other services from their auditors.
- (c) The threats that may arise in the course of providing other services are discussed in the remainder of this chapter. The threats may be analyzed under the headings set out in paragraph 3.2.0 above.

16.2.0 The self-interest threat

All work that creates a financial relationship between the auditor and the audit may appear to create a self-interest threat, as does payment for the audit itself. The nature of the threat sometimes perceived is that the auditor's objectivity might be impaired by a need to remain on good terms with the directors of the audited company in order to preserve a working relationship. The perceived threat grows with the size of the fees and is thus increased by work or services additional to the audit. But the most significant dimension of any threat, real or perceived, is likely to reside in the size of the total fees

earned from a client in relation to the whole fees of the firm. This threat is addressed by the guidance on undue dependence in paragraph 16.1.1 to 16.1.2. above.

16.2.1

The self-review threat

- (a) Audit work itself gives rise to self-review. The auditor reviews matters that he has previously judged in prior year's audits, matters that were judged at planning stage, his recommendations (or lack of them) to management at previous audits, etc. In auditing, perhaps more than in any other activity, there is a need for a readiness to recognize and avoid past mistakes. The auditor must adopt the objectivity and independence of mind to be able to acknowledge past mistakes or errors of judgment and report fairly and afresh.
- (b) The provision of other services may give rise to further needs for Self-review. If for example, the firm has designed or recommended any part of the systems or controls on which the audit relies, the audit team will need to take particular care to ensure that the audit judgments are objective, perhaps in the case of larger firms by arranging that there is little or no common membership between the systems work and the audit team.
- (c) If, as is common for smaller companies, the auditor has prepared any of the data contained in the financial statements or drafted materials for the notes, or assisted in the preparation of the accounting records, a high degree of self-review threat arises.
- (d) There is a spectrum of involvement by the auditor in the preparation of accounting records. It ranges from the situation prevailing in small companies where the auditor may prepare much of the accounting records and the financial statements as well as auditing whereas in the case of a major quoted company, the auditor does not participate in any part of the preparation process. Even in the latter case, the auditor who detects omissions in the company's proposed disclosures will normally suggest and draft the amendments required, so that in the end it is uncommon for a set of financial statements to appear where the auditor has had no hand whatsoever in the presentation or drafting.
- (e) These processes of assistance, entailing self-review as they do, are not intrinsically damaging to audit objectivity, but pose a threat to it. Safeguards are necessary.
- (f) At the smaller company end of the spectrum, the safeguards reside in a considered analysis by the auditor of the work done in preparation of records and statements and careful consideration as to what separate audit procedures and scope are thus required. At the other end of the spectrum, in the case of a quoted company or other public interest company, an audit practice should not participate in the preparation of the company's accounts and accounting records

save in relation to assistance of a routine clerical nature or in emergency. Such assistance might include, for example, work on the finalization of statutory accounts, including consolidations and tax provisions. The scale and nature of such work should be regularly reviewed.

16.2.2

Specialist valuations as an example of the self-review threat

The provision to an audit client of specialist valuation services, which directly affect figures in the financial statements, gives rise to a clear self-review threat to objectivity.

A firm can audit a client's financial statements, which include the product of a specialist valuation carried out by it or an associated firm or organisation in the same country or overseas. Provided that such relationships, and competences of the personnel in the valuation of the key assignment are disclosed. Other safeguards taken by the auditor to reduce the self-review threat to an acceptable level must be documented. The steps include:

- (a) A careful consideration of the materiality of the amount involved in relation to the financial statement.
- (b) Degree of subjectivity inherent in the items concerned.
- (c) The reliability and extent of the identity base data.

The extent and clarity of related disclosures in a financial statement including the disclosures and as stated above, the identity of the provider of the expert services..

16.2.3 ***Advocacy threat***

- (a) Advocacy arises where a practitioner becomes an advocate for a client's position in any adversarial proceeding or situation. There is nothing improper about a position of advocacy and many types of professional services and support to a client may require it.
- (b) Advocacy in a simple sense is always present when a firm supports its clients' interests. At the same time a professional person is always required to strive for objectivity in all professional work.
- (c) But Advocacy can take a sharpened form, a more committed and protagonist form, where the firm supports its client in an adversarial situation.
- (d) An auditor's client is in principle the company and its shareholders. However his duty to that particular client must be set in the context of the wider public interest which

requires him (through Companies and Allied Matters Act requirements and other relevant guidance and pronouncements) to provide an opinion as to whether a set of financial statements gives a "true and fair" view. That true and fair view must be an objective one, not tailored to or influenced by the needs of the client.

- (e) Hence advocacy in any sharpened form is likely to appear to the beholder to be incompatible with the particular objectivity required by the audit-reporting role. And in fact, particular advocacy roles, though adopted with objective judgement, may tend subsequently to form a degree of commitment in the professional's mind, which may make it difficult to return to the objectivity required for reporting.
- (f) The following examples are provided to illustrate the classes of professional services or other activity, which may give rise to these sharper forms of advocacy:
 - (i) The recommendation, or promotion, of shares requires the adoption of a posture of advocacy in relation to the company concerned which cannot be compatible with objectivity in reporting. To recommend or promote shares usually requires a mental commitment to views or assertions about the strengths and qualities of the company. These views or assertions may have been reached by objective consideration, but once adopted the mental commitment does not readily permit a return to either the appearance or the reality of dispassionate and objective judgement.
 - (ii) By extension, leading a corporate finance team, which takes the responsibility for recommending or promoting shares, will be incompatible with objectivity in reporting. For this reason, there is a prohibition on the provision of such services to a company on which the firm reports.
 - (iii) The adoption of an extreme position on any issue of accounting principles, Taxation or other matter of professional judgments will always raise the risk of putting the practitioner into a position of sharpened advocacy. This will be heightened if it becomes necessary for the firm to support the extreme position in adversarial proceedings such as litigation or negotiations with government departments. Such a position may both raise doubts in the minds of observers and make it genuinely difficult for a firm to preserve its own audit objectivity on the topics at issue.
- (g) The central issue for auditors in illustration (f) (iii) is the identification of what is or may become an extreme position. Members should endeavor to foresee such difficulties arising, and either avoid the extreme position or suggest to the company that it may seek alternate advisers to perform any role(s) requiring adversarial advocacy. It should be re-emphasized that there is nothing inherently unethical in

advocating an extreme position on a client's behalf, if it can be supported by objective evidence. But it may be improper to perform such advocacy while at the same time asserting that the objectivity of the audit role has been maintained. In some situations, separation of roles between different partners may provide a degree of internal safeguards, but practitioners should recognize the risk of bringing themselves and the profession into disrepute by entering into a situation where a position of advocacy appears to indicate a position of commitment or a bias in state of mind which is not consistent with the objective state of mind required for a reporting role.

16.2.4 *Involvement in management*

- (a) Members are warned in particular of the dangers of being inadvertently drawn into the provision of management functions where a range of services has been provided to an audit client over a period of years. A member should be careful not to go beyond the advisory role and drift into the management sphere.
- (b) The objections to an auditor becoming involved in a management role should be apparent. All of the threats to objectivity discussed above would affect the auditor who took management decisions, and their combined weight would make it virtually impossible for a member to claim to have retained objectivity in audit reporting.
- (c) A situation may arise where the practitioner tenders advice over a long period and the management of the company so frequently accepts and acts on the advice that it becomes difficult to separate the role of management from that of adviser. Members should ensure in every case that management accepts the judgments involved as its own after adequate consideration.
- (d) A practitioner would need to consider the position carefully if the firm were invited to design systems affecting operations on which the commercial success of the company depended. It might even be desirable for management to consider taking an expert second opinion if the advice from the auditor and the ensuring management judgments were crucial to the company's financial and operational success. Many practitioners would judge that objectivity could be preserved in the audit only if management was well qualified with its own expertise to make all the operating judgments involved in the adoption and implementation of the system and if there were, among other internal safeguards, a considerable degree of separation of the system designers from the audit team.
- (e) Recruitment of key financial and administrative staff for an audit client company is an instance where a firm should proceed with care. Whilst it is acceptable for the firm to advertise for and interview prospective staff and produce a 'short list' and recommendations, the final decision in every case as to whom to engage should be left to the client.

16.2.5 ***Area of risk - acting for a prolonged period of time***

Where the same engagement partner acts for an audit-client company for a prolonged period of time, a familiarity threat will arise.

16.2.6 ***The threat of over-familiarity***

(a) Professional relationships take time to develop, but once developed, they usually lead to maximum efficiency and effectiveness. Continuity of senior personnel on audit engagements is ordinarily to be encouraged both from the standpoint of the client and the Chartered Accountant in public practice. However, there is a concern that a long involvement by a single individual or audit team with an audit client could lead to the formulation of a close relationship which could be perceived to be a threat to objectivity and independence.

(b) Additionally, questions of quality control are affected, in that the Chartered accountant with continued familiarity may over rely on that familiarity when carrying out audit procedures and making judgments on key decisions. The Chartered Accountant in public practice should therefore take steps to provide for an orderly rotation of senior personnel serving on the engagement. When rotation is impractical, review procedures should be designed to achieve the same objectives.

16.3.0 ***OTHER EXAMPLES OF SAFEGUARDS***

16.3.1 ***Safeguards in relation to acting for prolonged period of time***

(a) Firms should, in relation to the audit of 'quoted companies' as defined in the definition section, ensure that no audit engagement partner remains in charge of such an audit for a period exceeding five (5) consecutive years. An audit engagement partner (see definition) who has ceased under the above provision to act as such should not return to that role in relation to that audit until a minimum of five years has passed, but is not precluded from other involvement with the client.

(b) A limited degree of flexibility over timing may be acceptable in circumstances where audit engagement partner continuity is especially important. Examples could include major changes to a company's structure or management, or its involvement in a take-over, which would otherwise coincide with the change of audit engagement partner.

(c) Because rotation of the audit engagement partner cannot be implemented by a sole-practitioner auditor, or by small firms where there is only one 'responsible individual', these should, in relation to the audit of quoted companies, be prepared to demonstrate that the following procedures have been carried out:

- (i) Internal review at least annually, coupled with
- (ii) External consultation (see paragraph 16.4.1 (a))

16.4.0 ***Companies and clients other than those specified in 16.3.1***

- (i) The threat to a firm's objectivity arising from audit engagement partners continuing in such roles for a prolonged period remains in relation to all clients and not merely those specified in paragraph 16.3.1 the same considerations apply in respect of senior audit staff. Members, should therefore, establish adequate review machinery along the lines indicated in paragraphs 16.3.1 (a)(b)(c) above, including an annual review, in order to satisfy themselves that each engagement may properly be accepted or continued.

16.4.1

Comments:

Sole Practitioners and small firms;

- (a) Not all the safeguards suggested in the course of the preceding guidance will be available to the sole practitioners within his firm. The practitioners should therefore set up alternative standing arrangements to consult externally with another member. Arrangements with another practitioner could include the provisions by the latter of the client's confidentiality and an undertaking not to accept instructions from any client whose work is the subject of review for a period of two years thereafter.

The involvement of a third party such as a clients audit committee, or regulatory body or another firm is a form of safeguard.

- (b) Where the practitioner's own review indicates that an audit engagement should only be accepted or continued with additional safeguards to protect the practitioner's independence, he should undertake such consultation before proceeding further. The extent of the consultation will vary according to the nature of the problem; in some cases it may be confined to a discussion of principles; in others it may involve an examination of the file or a discussion of personal relationships.
- (c) Refusal to act where no other course can abate the perceived problem: Some exclusions and prohibitions are the subject of statute or regulation outside the control of the profession. In addition, there are some situations in which the threat to an auditor's objectivity is so significant, or generally perceived to be so, that an auditor should, having regard to preservation of the public image of his profession, decline to accept appointment, even if he believes that the circumstances are such that available safeguards and procedures could, in his particular case, enable him to maintain proper objectivity. In this eventuality, he should decline or resign appointment.
- (d) It follows from the preceding paragraphs that the perception of the public (or any section of it) that an auditor's objectivity may be threatened is not, of itself, a reason why an appointment should be refused. The countervailing pressures and safeguards described above may often override a threat. Members and firms are

encouraged to make clients and others outside the profession aware of the compliance procedures that they employ.

CHAPTER SEVENTEEN

17.1.0 APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS

17.1.1 Introduction

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 chapters 3 and 16 can be applied to satisfactorily address the threats to independence.

17.1.2 Some of the examples deal with financial statement audit clients while others deal with assurance engagements for clients that are not financial statement audit clients. They illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team, the firm and network firms to be independent of a financial statement audit client, and 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.

17.1.3 The examples do not include assurance reports to a non-financial statement audit client expressly restricted for use by identified users. For such engagements, members of the assurance team and their immediate and close family are 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.

17.1.4 The examples illustrate how the framework applies to financial statement audit clients and other assurance clients. The examples should be read in conjunction with chapter 15.0.0, 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.

17.2.0 **Financial Interests**

17.2.1 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).

17.2.2 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.

17.3.0 **Provisions Applicable to All Assurance Clients**

17.3.1 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;
- (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.

17.3.2 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:
 - (i) Discussing the matter with those charged with governance, such as the audit committee; or
 - (ii) Involving an additional Chartered Accountant to review the work done, or otherwise advise as necessary.

17.3.3 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:

- (a) The close family member disposing of all or a sufficient portion of the financial interest at the earliest practical date;
- (b) Discussing the matter with those charged with governance, such as the audit committee;
- (c) Involving an additional Chartered 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
- (d) Removing the individual from the assurance engagement.

17.3.4 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:

- (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.

17.3.5 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:

- (a) Partners, and their immediate family members, who are not members of the assurance team;
- (b) Partners and managerial employees who provide non-assurance services to the assurance client; and
- (c) 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:
 - (d) The firm's organizational, operating and reporting structure; and
 - (e) The nature of the relationship between the individual and the member of the assurance team.

17.3.6 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:

- (a) Put in place appropriate, policies to restrict people from holding such interests;
- (b) Discussing the matter with those charged with governance, such as the audit committee; or
- (c) Involving an additional Chartered Accountant who did not take part in the assurance engagement to review the work done or otherwise advise as necessary.

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

17.3.8 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:

- (a) Involving an additional Chartered Accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team; or
- (b) Excluding the individual from any substantive decision-making concerning the assurance engagement.

17.4.0 Provisions Applicable to Financial Statement Audit Clients.

17.4.1 If a firm, or a network firm, has a direct financial interest in a financial statement audit client of the firm 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.

17.4.2 If a firm, or a network firm, has a material indirect financial interest in a financial statement audit client of the firm, a self-interest threat is also created. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to 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.

17.4.3 If a firm, or a network firm, has a material financial interest in an entity that has a controlling interest in a financial statement audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network 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.

17.4.4 If the retirement benefits plan of a firm, or network firm, has a financial interest in a financial statement audit client, a self-interest threat may be created. Accordingly, the

significance of any such threat created should be evaluated and, 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.

- 17.4.5 If other partners, including partners who do not perform assurance engagements, or their immediate family, in the office in which the engagement partner practices in connection with the financial statement audit hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such partners or their immediate family should not hold any such financial interests in such an audit client.
- 17.4.6 The office in which the engagement partner practices in connection with the financial statement audit is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the assurance team, judgment should be used to determine in which office the partner practices in connection with that audit.
- 17.4.7 If other partners and managerial employees who provide non-assurance services to the financial statement audit client, except those whose involvement is clearly insignificant, or their immediate family, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their immediate family should not hold any such financial interests in such an audit client.
- 17.4.8 A financial interest in a financial statement audit client that is held by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit, or (b) a partner or managerial employee who provides non-assurance services to the audit client is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g., Pension rights or share options) and, where necessary, appropriate safeguards are applied to reduce any threat to independence to an acceptable level.
- 17.4.9 A self-interest threat may be created if the firm, or the network firm, or a member of the assurance team has an interest in an entity and a financial statement audit client, or a director, officer or controlling owner thereof also has an investment in that entity. Independence is not compromised with respect to the audit client if the respective interests of the firm, the network firm, or member of the assurance team, and the audit client, or director, officer or controlling owner thereof are both immaterial and the audit client cannot exercise significant influence over the entity. If an interest is material, to the firm, the network firm or the audit client, and the audit client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the firm, or the network firm, should either dispose of the

interest or decline the audit engagement. Any member of the assurance team with such a material interest should either:

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

17.5.0 Provisions Applicable to Non-Financial Statement Audit Assurance Clients.

17.5.1 If a firm has a direct financial interest in an assurance client that is not a financial statement audit 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.

17.5.2 If a firm has a material indirect financial interest in an assurance client that is not a financial statement audit 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.

17.5.3 If a firm has a material financial interest in an entity that has a controlling interest in an assurance client that is not a financial statement audit 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.

17.5.4 When a restricted use report for an assurance engagement that is not a financial statement audit engagement is issued, exceptions to the provisions in paragraphs 18.3.0 through 18.3.4, 18.3.6 through 18.5.2 are set out in paragraph 14.1.0 of chapter fourteen.

17.6.0 Loans and Guarantees

17.6.1 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 Chartered Accountant from outside the firm, or network firm, to review the work performed.

- 17.6.2 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.
- 17.6.3 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.
- 17.6.4 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.
- 17.6.5 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.
- 17.6.6 The examples in paragraphs 18.6.1 through 18.6.5 relate to loans and guarantees between the firm and an assurance client. In the case of a financial statement audit engagement, the provisions should be applied to the firm; all network firms and the audit client.

17.7.0 Close Business Relationships with Assurance Clients

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

- (c) 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.

17.7.2 In the case of a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm, the network firm and the audit client, no safeguards could reduce the threat to an acceptable level.

17.7.3 In the case of an assurance client that is not a financial statement audit client, 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;
- (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.

17.7.4 In the case of a financial statement audit client, business relationships involving an interest held by the firm, a network firm or a member of the assurance team or their immediate family in a closely held entity when the audit client or a director or officer of the audit client, or any group thereof, also has an interest in that entity, do not create threats to independence provided:

- (a) The relationship is clearly insignificant to the firm, the network firm and the audit client;
- (b) The interest held is immaterial to the investor, or group of investors; and
- (c) The interest does not give the investor, or group of investors, the ability to control the closely held entity.

17.7.5 The purchase of goods and services from an assurance client by the firm (or from a financial statement audit client by a network 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:

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

17.8.0 Family and Personal Relationships

17.8.1 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.

17.8.2 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. For example, in the case of an audit of financial statements, if the spouse of a member of the assurance team is an employee in a position to exert direct and significant influence over the preparation of the audit client's accounting records or financial statements, the threat to independence could only be reduced to an acceptable level by removing the individual from the assurance team.

17.8.3 When an immediate family member of a member 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:

- (a) The position the immediate family member holds with the client; and
- (b) 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:

- (i) 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
- (ii) Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

17.8.4 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:

- (a) The position the close family member holds with the client; and
- (b) Role of the professional on the assurance team.

17.8.5 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:

- (a) Removing the individual from the assurance team;
- (b) 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
- (c) Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

17.8.6 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.

17.8.7 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.

17.8.8 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.

17.8.9 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:

- (a) 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
- (b) Excluding the individual from any substantive decision-making concerning the assurance engagement.

17.9.0 Employment with Assurance Clients

17.9.1 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 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.

17.9.2 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.

17.9.3 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:

- (a) Considering the appropriateness or necessity of modifying the assurance plan for the assurance engagement;
- (b) 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;
- (c) 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
- (d) 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:
 - (i) 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.

- (ii) the individual does not continue to participate or appear to participate in the firm's business or professional activities.

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

17.10.0 **Recent Service with Assurance Clients.**

17.10.1 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.

17.10.2 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.

17.10.3 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:

- (a) The position the individual held with the assurance client;
- (b) The length of time that has passed since the individual left the assurance client; and

- (c) 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:
- (d) 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
- (e) Discussing the issue with those charged with governance, such as the audit committee.

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

- 17.11.1 If a partner or employee of the firm serves as an officer or as a 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. In the case of a financial statement audit engagement, if a partner or employee of a network firm were to serve as an officer or as a director on the board of the audit client the 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.
- 17.11.2 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.
- 17.11.3 If a partner or employee of the firm or a network firm serves as Company Secretary for a financial statement audit client the self-review and advocacy threats created would generally be so significant, no safeguard could reduce the threat to an acceptable level. When the practice is specifically permitted under local law, professional rules or practice, the duties and functions undertaken should be limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns.
- 17.11.4 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.

17.12.0 Long Association of Senior Personnel with Assurance Clients

General Provisions

17.12.1 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:

- (a) The length of time that the individual has been a member of the assurance team;
- (b) The role of the individual on the assurance team;
- (c) The structure of the firm; and
- (d) 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:

- (i) Rotating the senior personnel off the assurance team;
- (ii) 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
- (iii) Independent internal quality reviews.

17.13.0 Financial Statement Audit Clients That are Listed Entities

17.13.1 Using the same engagement partner or the same individual responsible for the engagement quality control review on a financial statement audit over a prolonged period may create a familiarity threat. This threat is particularly relevant in the context of the financial statement audit of a listed entity and safeguards should be applied in such situations to reduce such threat to an acceptable level. Accordingly in respect of the financial statement audit of listed entities:

- (a) The engagement partner and the individual responsible for the engagement quality control review should be rotated after serving in either capacity, or a combination thereof, for a pre-defined period, normally no more than 5 years and
- (b) Such an individual rotating after a pre-defined period should not participate in the audit engagement until a further period of time, normally two years, has elapsed.

17.13.2 When a financial statement audit client becomes a listed entity the length of time the engagement partner or the individual responsible for the engagement quality control review has served the audit client in that capacity should be considered in determining when the individual should be rotated. However, the person may continue to serve as the

engagement partner or as the individual responsible for the engagement quality control review for two additional years before rotating off the engagement.

17.13.3 While the engagement partner and the individual responsible for the engagement quality control review should be rotated after such a pre-defined period, some degree of flexibility over timing of rotation may be necessary in certain circumstances. Examples of such circumstances include:

(a) Situations when the person's continuity is especially important to the financial statement audit client, for example, when there will be major changes to the audit client's structure that would otherwise coincide with the rotation of the person's; and

(b) Situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard. In all such circumstances when the person is not rotated after such a pre-defined period, equivalent safeguards should be applied to reduce any threats to an acceptable level.

17.13.4 When a firm has only a few people with the necessary knowledge and experience to serve as engagement partner or individual responsible for the engagement quality control review on a financial statement audit client that is a listed entity, rotation may not be an appropriate safeguard. In these circumstances the firm should apply other safeguards to reduce the threat to an acceptable level. Such safeguards would include involving an additional professional accountant who was not otherwise associated with the assurance team to review the work done or otherwise advise as necessary. This individual could be someone from outside the firm or someone within the firm who was not otherwise associated with the assurance team

17.14.0 **Provision of Non-assurance Services to Assurance Clients.**

17.14.1 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Assurance client's 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 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.

17.14.2 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:

- (a) Exercising authority on behalf of the assurance client, or having the authority to do so.
- (b) Determining which recommendation of the firm should be implemented.
- (c) Reporting, in a management role, to those charged with governance

17.14.3 The examples set out in paragraphs 18.1.0. through 18.14.3 are addressed in the context of the provision of non-assurance services to an assurance client. The potential threats to independence will most frequently arise when a non-assurance service is provided to a financial statement audit client. The financial statements of an entity provide financial information about a broad range of transactions and events that have affected the entity. The subject matter information of other assurance services, however, may be limited in nature. Threats to independence, however, may also arise when a firm provides a non-assurance service related to the subject matter information, of a nonfinancial 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.

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

- (a) Having custody of an assurance client's assets.
- (b) Supervising assurance client employees in the performance of their normal recurring activities.
- (c) 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 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:

- (a) Making arrangements so that personnel providing such services do not participate in the assurance engagement;
- (b) Involving an additional Chartered Accountant to advise on the potential impact of the activities on the independence of the firm and the assurance team; or
- (c) Other relevant safeguards set out in national regulations and relevant laws

17.14.5 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.

17.14.6 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:

- (a) Policies and procedures to prohibit professional staff from making management decisions for the assurance client, or assuming responsibility for such decisions.
- (b) Discussing independence issues related to the provision of non-assurance services with those charged with governance, such as the audit committee.
- (c) Policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm.
- (d) 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.
- (e) Involving an additional professional accountant outside of the firm to provide assurance on a discrete aspect of the assurance engagement.
- (f) Obtaining the assurance client's acknowledgement of responsibility for the results of the work performed by the firm.
- (g) Disclosing to those charged with governance, such as the audit committee, the nature and extent of fees charged.

- (h) Making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement.

17.14.7 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.

17.14.8 The provision of certain non-assurance services to financial statement audit clients may create threats to independence so significant that no safeguard could eliminate the threat or reduce it to an acceptable level. However, the provision of such services to a related entity, division or discrete financial statement item of such clients may be permissible when any threats to the firm's independence have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.

17.15.0 Preparing Accounting Records and Financial Statements.

17.15.1 Assisting a financial statement audit client in matters such as preparing accounting records or financial statements may create a self-review threat when the firm subsequently audits the financial statements.

17.15.2 It is the responsibility of financial statement audit client management to ensure that accounting records are kept and financial statements are prepared, although they may request the firm to provide assistance. If firm, or network firm, personnel providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Consequently, personnel should not make such decisions. Examples of such managerial decisions include:

- (a) Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the financial statement audit client;
- (b) Authorizing or approving transactions; and
- (c) Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data.

17.15.3 The audit process involves extensive dialogue between the firm and management of the financial statement audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for financial statement audit clients are an appropriate means to promote the fair presentation of the financial statements. The provision of such advice does not generally threaten the firm's independence. Similarly, the financial statement audit process may involve assisting an audit client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, assisting in the preparation of consolidated financial statements (including the translation of local statutory accounts to comply with group accounting policies and the transition to a different reporting framework such as International Financial Reporting Standards), drafting disclosure items, proposing adjusting journal entries and providing assistance and advice in the preparation of local statutory accounts of subsidiary entities. These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

17.16.0 **General Provisions**

17.16.1 The examples in these paragraphs indicate that self-review threats may be created if the firm is involved in the preparation of accounting records or financial statements and those financial statements are subsequently the subject matter information of an audit engagement of the firm. This notion may be equally applicable in situations when the subject matter information of the assurance engagement is not financial statements. For example, a self-review threat would be created if 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.

17.17.0 **Financial Statements Audit Clients That Are Not Quoted Entities**

17.17.1 The firm, or a network firm, may provide a financial statement audit client that is not a listed entity with accounting and bookkeeping services, including payroll services, of a routine or mechanical nature, provided any self-review threat created is reduced to an acceptable level. Examples of such services include:

- (a) Recording transactions for which the audit client has determined or approved the appropriate account classification;
- (b) Posting coded transactions to the audit client's general ledger;

- (c) Preparing financial statements based on information in the trial balance; and
- (d) Posting the audit client approved entries to the trial balance. The significance of any 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. Such safeguards might include:
 - (e) Making arrangements so a member of the assurance team does not perform such services;
 - (f) Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client;
 - (g) Requiring the source data for the accounting entries to be originated by the audit client;
 - (h) Requiring the underlying assumptions to be originated and approved by the audit client; or
 - (i) Obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.

17.18.0 **Financial Statement Audit Clients That are Listed Entities**

17.18.1 The provision of accounting and book keeping services, including payroll services and the preparation of financial statements or financial information which forms the basis of the financial statements on which the audit report is provided, on behalf of a financial statement audit client that is a listed entity, may impair the independence of the firm or network firm, or at least give the appearance of impairing independence. Accordingly, no safeguard other than the prohibition of such services, except in emergency situations and when the services fall within the statutory audit mandate, could reduce the threat created to an acceptable level. Therefore, a firm or a network firm should not, with the limited exceptions below, provide such services to a listed entity that is a financial statement audit client.

17.18.2 The provision of accounting and bookkeeping services of a routine or mechanical nature to divisions or subsidiaries of a financial statement audit client that is a listed entity would not be seen as impairing independence with respect to the audit client provided that the following conditions are met:

- (a) The services do not involve the exercise of judgment.

- (b) The divisions or subsidiaries for which the service is provided are collectively immaterial to the audit client, or the services provided are collectively immaterial to the division or subsidiary.
- (c) The fees to the firm, or network firm, from such services are collectively clearly insignificant. If such services are provided, all of the following safeguards should be applied:
 - (d) The firm, or network firm, should not assume any managerial role nor make any managerial decisions.
 - (e) The audit client should accept responsibility for the results of the work.
 - (f) Personnel providing the services should not participate in the audit.

17.19.0 **Emergency Situations**

- 17.19.1 The provision of accounting and bookkeeping services to financial statement audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements, would not be considered to pose an unacceptable threat to independence provided:
- (a) The firm, or network firm, does not assume any managerial role or make any managerial decisions;
 - (b) The audit client accepts responsibility for the results of the work; and
 - (c) Personnel providing the services are not members of the assurance team.

17.20.0 **Valuation Services**

- 17.20.1 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.
- 17.20.2 A self-review threat may be created when a firm or network firm performs a valuation for a financial statement audit client that is to be incorporated into the client's financial statements.
- 17.20.3 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any

safeguard. Accordingly, such valuation services should not be provided or, alternatively, the only course of action would be to withdraw from the financial statement audit engagement.

17.20.4 Performing valuation services for a financial statement audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may create a self-review threat that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include:

- (a) Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary;
- (b) Confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;
- (c) Obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and
- (d) Making arrangements so that personnel providing such services do not participate in the audit engagement. In determining whether the above safeguards would be effective, consideration should be given to the following matters:
 - (i) The extent of the audit client's knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment.
 - (ii) The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.
 - (iii) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.
 - (iv) The reliability and extent of the underlying data.
 - (v) The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
 - (vi) The extent and clarity of the disclosures in the financial statements.

17.20.5 When a firm, or a network firm, performs a valuation service for a financial statement audit client for the purposes of making a filing or return to a tax authority, computing an amount of tax due by the client, or for the purpose of tax planning, this would not create a significant threat to independence because such valuations are generally subject to external review, for example by a tax authority.

17.20.6 When the firm performs a valuation that forms part of the subject matter information of an assurance engagement that is not a financial statement audit 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.

17.21.0 Provision of Taxation Services to Financial Statement Audit Clients

17.21.1 In many jurisdictions, the firm may be asked to provide taxation services to a financial statement audit client. Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.

17.22.0 Provision of Internal Audit Services to Financial Statement Audit Clients

17.22.1 A self-review threat may be created when a firm, or network firm, provides internal audit services to a financial statement audit client. Internal audit services may comprise an extension of the firm's audit service beyond requirements of generally accepted auditing standards, assistance in the performance of a client's internal audit activities or outsourcing of the activities. In evaluating any threats to independence, the nature of the service will need to be considered. For this purpose, internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.

17.22.2 Services involving an extension of the procedures required to conduct a financial statement audit in accordance with International Standards on Auditing would not be considered to impair independence with respect to the audit client provided that the firm's or network firm's personnel do not act or appear to act in a capacity equivalent to a member of audit Client Management

17.22.3 When the firm, or a network firm, provides assistance in the performance of a financial statement audit client's internal audit activities or undertakes the outsourcing of some of the activities, any self-review threat created may be reduced to an acceptable level by ensuring that there is a clear separation between the management and control of the internal audit by client management and the internal audit activities themselves.

17.22.4 Performing a significant portion of the financial statement audit client's internal audit activities may create a self-review threat and a firm, or network firm, should consider the threats and proceed with caution before taking on such activities. Appropriate safeguards should be put in place and the firm, or network firm, should, in particular, ensure that the audit client acknowledges its responsibilities for establishing, maintaining and monitoring the system of internal controls.

- 17.22.5 Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:
- (a) The audit client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;
 - b) The audit client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
 - (c) The audit client, the audit committee or supervisory body approves the scope, risk and frequency of internal audit work;
 - (d) The audit client is responsible for evaluating and determining which recommendations of the firm should be implemented;
 - (e) The audit client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining and acting on reports from the firm; and
 - (f) The findings and recommendations resulting from the internal audit activities are reported appropriately to the audit committee or supervisory body.
- 17.22.6 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.
- 17.23.0 **Provision of IT Systems Services to Financial Statement Audit Clients**
- 17.23.1 The provision of services by a firm or network firm to a financial statement audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may create a self-review threat.
- 17.23.2 The self-review threat is likely to be too significant to allow the provision of such services to a financial statement audit client unless appropriate safeguards are put in place ensuring that:
- (a) The audit client acknowledges its responsibility for establishing and monitoring a system of internal controls;

- (b) The audit client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system;
- (c) The audit client makes all management decisions with respect to the design and implementation process;
- (d) The audit client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

17.23.3 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.

17.23.4 The provision of services by a firm, or network firm, to a financial statement audit client which involve either the design or the implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may also create a self-review threat. The significance of the threat, if any, should be evaluated and, 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.

17.23.5 The provision of services in connection with the assessment, design and implementation of internal accounting controls and risk management controls are not considered to create a threat to independence provided that firm or network firm personnel do not perform management functions.

17.24.0 Temporary Staff Assignments to Financial Statement Audit Clients

17.24.1 The lending of staff by a firm, or network firm, to a financial statement audit client may create a self-review threat when the individual is in a position to influence the preparation of a client's accounts or financial statements. In practice, such assistance may be given (particularly in emergency situations) but only on the understanding that the firm's or network firm's personnel will not be involved in:

- (a) Making management decisions;
- (b) Approving or signing agreements or other similar documents; or

(c) Exercising discretionary authority to commit the client.

17.24.2 Each situation should be carefully analyzed to identify whether any threats are created and whether appropriate safeguards should be implemented. Safeguards that should be applied in all circumstances to reduce any threats to an acceptable level include:

- (a) The staff providing the assistance should not be given audit responsibility for any function or activity that they performed or supervised during their temporary staff assignment; and
- (b) The audit client should acknowledge its responsibility for directing and supervising the activities of firm, or network firm, personnel.

17.25.0 Provision of Litigation Support Services to Financial Statement Audit Clients.

17.25.1 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.

17.25.2 A self-review threat may be created when the litigation support services provided to a financial statement audit client include the estimation of the possible outcome and thereby affects the amounts or disclosures to be reflected in the financial statements. The significance of any threat created will depend upon factors such as:

- (a) The materiality of the amounts involved;
- (b) The degree of subjectivity inherent in the matter concerned; and
- (c) The nature of the engagement.

17.25.3 The firm, or network firm, should evaluate the significance of any threat created and, 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:

- (a) Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client;
- (b) Using professionals who are not members of the assurance team to perform the service; or
- (c) The involvement of others, such as independent experts.

17.25.4 If the role undertaken by the firm or network firm involved making managerial decisions on behalf of the financial statement audit client, the threats created could not be reduced to an acceptable level by the application of any safeguard. Therefore, the firm or network firm should not perform this type of service for an audit client.

17.26.0 **Recruiting Senior Management**

17.26.1 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:

- (a) The role of the person to be recruited; and
- (b) The nature of the assistance sought.

17.26.2 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.

17.26.3 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.

17.27.0 **Corporate Finance and Similar Activities**

17.27.1 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. In the case of a financial statement audit client the provision of those corporate finance services referred to above by a firm or a network firm would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level.

17.27.2 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 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:

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

17.28.0 Fees and Pricing
Fees-Relative Size

17.28.1 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:

- (a) The structure of the firm; and
- (b) Whether the firm is well established or newly created.

17.28.2 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:

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

17.28.3 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 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:

- (a) Policies and procedures to monitor and implement quality control of assurance engagements; and

(b) Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary.

17.29.0 **Fees-Overdue**

17.29.1 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:

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

17.29.2 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.

17.30.0 **Pricing**

17.30.1 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.

17.31.0 **Contingent Fees**

17.31.1 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.

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

17.31.3 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:

- (a) The range of possible fee amounts;
- (b) The degree of variability;
- (c) The basis on which the fee is to be determined;
- (d) Whether the outcome or result of the transaction is to be reviewed by an Independent third party; and
- (d) The effect of the event or transaction on the assurance engagement.

17.31.4 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:

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

17. 32.0 **Gifts and Hospitality**

17.32.1 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.

17 33.0 **Actual or Threatened Litigation**

17.33.1 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 characterized 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:

- (a) The materiality of the litigation;
- (b) The nature of the assurance engagement; and
- (c) Whether the litigation relates to a prior assurance engagement.

17.33.2 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.

CHAPTER EIGHTEEN

18.1.0 OBJECTIVITY AND INDEPENDENCE IN FINANCIAL REPORTING AND SIMILAR NON-AUDIT ROLES.

18.1.1 There are roles other than the audit in which a member is required to report with similar authority on financial matters, and to which therefore the consideration referred to in Chapter 17 (above) apply, as follows;

(a) *Financial reporting*

The considerations, which make it essential for a member's objectivity to be safeguarded when he carries out an audit are also relevant to other financial reporting assignments requiring a professional opinion, including reporting assignments where a document has been prepared in contemplation that a third party may rely on it. Some reports are commissioned by management for management's internal use only, these are not subject to the same rules.

(b) *Litigation support*

A member called upon to report or undertake work in connection with civil proceeding or with criminal prosecution should appreciate that such work may be tendered as evidence in a court of law and/or involve the member in giving evidence upon oath. The objectivity of such a member should, therefore, be safeguarded when he accepts and carries on such an assignment.

(c) *Specialist valuation*

The objectivity of a member, who carries out a specialist valuation, the results of which may be included in financial accounts or public documents, needs to be safeguarded, and similar considerations apply to those set out in Part 3 and shall be read in conjunction with 3(1) together in relation to the carrying out of an audit.

18.2.0 OBJECTIVITY AND INDEPENDENCE IN PROFESSIONAL ROLES OTHER THAN THOSE COVERED IN Paragraph 17.1.0

18.2.1 This Section deals with work other than the work covered by paragraph 3 and 16 of this code including but not limited to

- (a) Taxation services;
- (b) Preparation of accounts;
- (c) Corporate advisory services other than the preparation of documents for public use;
- (d) Management consultancy services;
- (e) Reporting to management/ secondment to management.; and
- (f) Receivership and Insolvency Services.

18.2.2 Independence in the sense in which it is sometimes applied to audit assignments is not essential to the work referred to in the previous paragraph, provided that the practice is not also auditor to the client and objectivity is not impaired.

18.2.3 There are nevertheless certain factors which by their nature are a threat to objectivity in any professional role. Accordingly, the following considerations referred to in chapter 16 (above) apply to the professional assignments referred to in paragraph 18.2.1 above.

18.2.4 *Area of risk - family and other personal relationships*

An objective approach to any assignment may be subject to self-interest or familiarity threats as a consequence of a family or other close personal or business relationship.

Objectivity in relation to any assignment may be subject to a self-interest threat where a mutual business interest exists with a client company or with an officer or employee of the company. The safeguards indicated in paragraph 16.3.1 (a)(b)(c) of chapter 16 should be implemented as appropriate. In addition, adequate disclosure of any conflict of interest arising should be made to all relevant parties.

18.3.0 *Area of risk - loans*

- (a) An objective approach to any assignment may be subject to a self-interest threat if a firm or any principal in the firm should directly or indirectly make any loan to or receive a loan from a client, or give or accept any guarantee in relation to a debt of the client, firm or principal.
- (b) Firm or a principal of the firm should not receive any loan from a client. This is because the size of the perceived self-interest threat arising in such circumstances is generally seen as being too great to be offset by any available safeguards. Nor should a firm or principal make any loan to a client, although this restriction does not normally apply to any account in credit with a client clearing bank or similar financial institution.
- (c) The above advice is not intended to preclude a loan, overdraft or home mortgage being accepted from a client financial institution in the normal course of business and on normal commercial terms provided that where the loan is applied so as to subscribe to partnership capital or where the loan is made to an engagement partner, the significance of the loan is not such as to cast doubt on the objectivity of the practice in performing the role or roles which it is contracted to discharge.
- (d) Similar considerations apply where there are significant overdue fees from a client or group of connected clients.

- 18.3.1 ***Area of risk - goods and services: hospitality or other benefits***
A self-interest threat arises where anyone in the firm receives goods, services or hospitality from a client. This should not, therefore, be accepted by a firm or by anyone closely connected with it, unless the value of any benefit is insignificant.
- 18.3.2 ***Beneficial interests in shares and other investments***
A self-interest threat to the objectivity of a member or firm will arise in relation to any investment in a company or undertaking with which the firm has a professional relationship, and the safeguards set out in paragraphs 16.1.12 to 16.1.15 above should be implemented as appropriate. Where the value of the investment is material to the financial circumstances of the investing member or firm, they should cease to advise professionally (see paragraph 16.1.13.)
- 18.3.3 ***Business advisers***
Where a member or a practice acts as business adviser to a client, he, or it may invest in that client, and if the client is a company, act as sponsor or promoter of its shares, provided that the relation-ship is clearly disclosed to relevant parties.
- 18.3.4 ***Discussion***
Members who hold office in a client company, or have comparable business relationship with a client, should be aware of the dangers inherent in seeking to combine such a role with that of adviser, having regard to the self-interest threat to their objectivity.

In such circumstances, members 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.
- 18.3.5 ***Arbitration***
It is a requirement of law that an arbitrator must act independently of the parties on the issues involved in arbitration. Members should ensure independence in fact and in appearance in any such situation.
- 18.3.6 **Insolvency And Receivership Services:** It should be noted that the statutory obligations as provided by CAMA in respect of Winding Up proceedings Sections 401- 540 of CAMA apply to members offering Insolvency and receivership services. It is also pertinent to note that Reconstruction, i.e. Amalgamation, Mergers and Take over of Companies and Corporations are services also undertaken by members of the institute. The Rules governing this practice is covered by the procedures in Sections 590-613 of CAMA. Members should also be aware of the SEC Rules and Guidelines.

CHAPTER NINETEEN

19.1.0 CONSULTANCY

This Statement applies only to practising members, affiliates and, where appropriate, employees of practising firms.

- 19.1.1 If a member in practice (the practitioner) obtains the advice of a member (the consultant) on a consultancy basis on behalf of a client, the consultant or any practising firm with which he or his consultancy organisation is associated should not, without the consent of the practitioner, accept from that client within two years of completion of the consultancy assignment any work which was, at the time the consultant was first retained in relation to that client's affairs, being carried out by the practitioner.
- 19.1.2 The same considerations apply where a practitioner introduces one of his clients to the consultant for the purpose of consultancy.
- 19.1.3 The Chartered Accountant in public practice may in addition to assurance services work in the areas listed in Chapter 18.2.1 above provided he complies with the relevant provision of the Code.

PART THREE

CHAPTER TWENTY

20.1.0 MEMBERS IN BUSINESS

Introduction

- 20.1.1 This Part of the Code illustrates how the conceptual framework contained in Part one is to be applied by Chartered Accountants in business.
- 20.1.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, may rely on the work of Chartered Accountants in business. Chartered Accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 20.1.3 Chartered Accountants in business may be salaried employees, partners, directors (whether executive or non-executive), owner managers, volunteers or others working for one or more employing organizations. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the Chartered Accountant in business.
- 20.1.4 Chartered Accountants in business have a responsibility to further the legitimate aims of their employing organizations. This Code does not seek to hinder Chartered Accountants in business from properly fulfilling that responsibility, but considers circumstances in which conflicts may be created with the absolute duty to comply with the fundamental principles.
- 20.1.5 Chartered Accountants in business often hold senior positions within organizations. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. Chartered Accountants in business are expected, therefore, to encourage an ethics-based culture in an employing organization that emphasises the importance that senior management places on ethical behaviour.
- 20.1.6 The examples presented in the following sections are intended to illustrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by Chartered Accountants in business that may create threats to compliance with the principles. Consequently, it is not sufficient for Chartered Accountants in business merely to

comply with the examples; rather, the framework should be applied to the particular circumstances faced.

20.1.7 Threats and Safeguards

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 were discussed further in Part 2 of this Code.

20.1.8 Examples of circumstances that may create self-interest threats for Chartered Accountants in business include, but are not limited to:

- (a) Financial interests, loans or guarantees.
- (b) Incentive compensation arrangements.
- (c) Inappropriate personal use of corporate assets.
- (d) Concern over employment security.
- (e) Commercial pressure from outside the employing organization.

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

20.1.10 When furthering the legitimate goals and objectives of their employing organizations Chartered Accountants in business may promote the organization's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

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

- (a) Chartered Accountants in business in a position to influence financial or nonfinancial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
- (b) Long association with business contacts influencing business decisions.
- (c) Acceptance of a gift or preferential treatment, unless the value is clearly insignificant.

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

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

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

20.1.14 Safeguards that may eliminate or reduce to an acceptable level the threats faced by Chartered Accountants in business fall into two broad categories:

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

20.1.15 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 3.2.8 of chapter three of this Code.

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

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

20.1.17 In circumstances where a Chartered Accountants in business believe that unethical behavior or actions by others will continue to occur within the employing organization, the

Chartered Accountant in business should consider seeking legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, Chartered Accountants in business shall conclude that it is appropriate to resign from the employing organization.

20.2.0 Potential Conflicts

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

20.2.2 As a consequence of responsibilities to an employing organization, Chartered Accountants in business may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organization. Chartered Accountants in Business may face pressure to:

- (a) Act contrary to laws or regulations.
- (b) Act contrary to technical or professional standards.
- (c) Facilitate unethical or illegal earnings management strategies.
- (d) Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
 - (i) The auditors of the employing organization; or
 - (ii) Regulators.

(e) Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:

- (i) The financial statements;
- (ii) Tax compliance;
- (iii) Legal compliance; or
- (iv) Reports required by securities regulators.

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

- (a) Obtaining advice where appropriate from within the employing organisation, an independent professional adviser or a relevant professional body.
- (d) The existence of a formal dispute resolution process within the employing organization.
- (e) Seeking legal advice. Preparation and Reporting of Information

20.2.4 Chartered Accountants in business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. Chartered Accountant in business should prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.

20.2.5 Chartered Accountants in business who have the responsibility for the preparation or approval of the general purpose financial statements of an employing organization should ensure that those financial statements are presented in accordance with the applicable financial reporting standards.

20.2.6 Chartered Accountants in business should maintain information for which they responsible in a manner that:

- (a) Describes clearly the true nature of business transactions, assets or liabilities;
- (b) Classifies and records information in a timely and proper manner; and
- (c) Represents the facts accurately and completely in all material respects.

20.2.7 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may be created where Chartered Accountants in business may be pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.

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

20.2.9 Where it is not possible to reduce the threat to an acceptable level, Chartered Accountants in business should refuse to remain associated with information they consider is or may be misleading. Should the Chartered Accountant in business be aware

that the issuance of misleading information is either significant or persistent, the Chartered Accountant in business should consider informing appropriate authorities in line with the guidance in paragraph 1.2.4. The Chartered Accountant in business may also wish to seek legal advice or resign.

20.3.0 Acting with Sufficient Expertise

20.3.1 The fundamental principle of professional competence and due care requires that Chartered Accountants in business should only undertake significant tasks for which the Chartered Accountant in business has, or can obtain, sufficient specific training or experience. Chartered Accountants in business should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should Chartered Accountant in business fail to seek appropriate expert advice and assistance when required.

20.3.2 Circumstances that threaten the ability of Chartered Accountant in business to perform duties with the appropriate degree of professional competence and due care includes:

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

20.3.3 The significance of such threats will depend on factors such as the extent to which the Chartered Accountant in business is working with others, relative seniority in the business and the level of supervision and review applied to the work. The significance of the threats should be evaluated 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. **Safeguards** that may be considered include:

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

20.3.4 Where threats cannot be eliminated or reduced to an acceptable level, Chartered Accountants in business should consider whether to refuse to perform the duties in question. If a Chartered Accountant business determines that refusal is appropriate the reasons for doing so should be clearly communicated

20.4.0 Financial Interests

20.4.1 Chartered Accountants in business may have financial interests, or may know of financial interests of immediate or close family members, that could, in certain circumstances, give rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include, but are not limited to situations where the Chartered Accountant in business or an immediate or close family member:

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the Chartered Accountant in business;
- Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the Chartered Accountant in business;
- May qualify for performance related bonuses if certain targets are achieved.

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

20.4.2 If threats 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:

- Policies and procedures for a committee independent of management to determine the level of form of remuneration of senior management.
- Disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organization, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organization.
- Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.

- Internal and external procedures.
- Up-to-date education on ethical issues and the legal restrictions and other regulations around potential insider trading.

20.4.4 Chartered Accountants in business should neither manipulate information nor use confidential information for personal gain.

20.5.0 Inducements

Receiving Offers

20.5.1 Chartered Accountants in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.

20.5.2 Offers of inducements may create threats to compliance with the fundamental principles. When a Chartered Accountant in business or an immediate or close family member is offered an inducement, the situation should be carefully considered. Self-interest threats to objectivity or confidentiality are created where an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the Chartered Accountant in business or an immediate or close family member.

20.5.3 The significance of such threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, having knowledge of all relevant information, would consider the inducement insignificant and not intended to encourage unethical behavior, then a Chartered Accountant in business may conclude that the offer is made in the normal course business and may generally conclude that there is no significant threat to compliance with the fundamental principles.

20.5.4 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 Chartered Accountant in business should not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards should be adopted. Chartered Accountants in business should assess the risk associated with all such offers and consider whether the following actions should be taken:

- (a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organization;
- (b) Inform third parties of the offer - for example, a professional body or the employer of the individual who made the offer; a Chartered Accountant in business should, however, consider seeking legal advice before taking such a step; and
- (c) Advise immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example as a result of their employment situation; and
- (d) Inform higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organisation.

20.6.0 Making Offers

20.6.1 Chartered Accountants in business may be in a situation where they are expected to, or are under other pressure to, offer inducements to subordinate the judgment of other individuals or organisations, influence decision-making processes or obtain confidential information.

20.6.2 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organisation possibly influencing the Chartered Accountant in business improperly.

20.6.3 Chartered Accountants in business should not offer inducement to improperly influence professional judgment of a third party.

20.6.4 Where the pressure to offer an unethical inducement comes from within the employing organization, the Chartered Accountant should follow the principles and guidance regarding ethical conflict resolution set out in Part One Section 2.3.0 of this Code.

PART FOUR

CHAPTER TWENTY-ONE

21.1.0 ENFORCEMENT OF ETHICAL STANDARDS

This statement shall apply to all members.

21.1.1 The power of the Institute to enforce ethical standards is derived from The Institute of Chartered Accountants of Nigeria Act no 15 1965 which power is conferred on the Accountants' Disciplinary Tribunal and the Tribunal in this respect is independent of Council.

21.1.2 The Investigating Panel considers complaints against the conduct of members, and is empowered to initiate disciplinary action by referring appropriate cases to the Disciplinary Tribunal for adjudication.

21.1.3 where a complaint is against the conduct of a firm having more than one partner, the complaint shall be deemed to have been made against each and every member who was partner in the said firm at the material time, for the purposes of this statement.

21.1.4 Any failure to follow the guidance in fundamental principles or in the statements shall also be taken into account by the committee of the Institute responsible for regulating the work of members and member firms.

21.2.0 ENFORCEMENT PROCEDURES

21.2.1 Where a complaint is received by the Institute alleging a case of misconduct against a member, such a member shall be requested by the Investigating Panel to furnish his defence or reaction to the complaint within 14 days of the receipt of the request to do so.

21.2.2 If the member fails to respond within the specified time, a first reminder shall be sent to him requesting him to send his defence or reaction within 7 days from the receipt of the reminder and a warning that non-response shall amount to disrespect to the Institute and is sanctionable by the Disciplinary Tribunal.

21.2.3 If the member fails to respond after the first reminder, a formal charge shall be preferred against the member before the Disciplinary Tribunal.

The provisions and/or procedures contained in paragraphs 21.2.1 and 21.2.2 above shall apply to all other requirement or directive of the Panel to a member so that failure or neglect by the member to abide by the requirement or directive shall also be treated as disrespect of the Institute and is sanction able by the Disciplinary Tribunal.

- 21.2.4 If the member's contact address cannot be readily obtained, The Panel shall publish the invitation in a National Newspaper and if after 14 days there is no response from the member, this shall be treated as disrespect to the Institute and is sanction able by the Disciplinary Tribunal
- 21.2.5 If having considered the facts before it, and any representation made by the member, the Panel is of the opinion that in all the circumstances those facts amount to misconduct and is of the further opinion that disciplinary proceedings should be brought, it will prefer a formal complaint to the Disciplinary Tribunal.
- 21.2.6 It is the Disciplinary Tribunal alone that can determine, subject to the right of appeal referred to below, whether a complaint of misconduct is proved.
- 21.2.7 From the Accountants 'Disciplinary Tribunal, a member has a right of appeal to the Court of Appeal. See Section 12(5) of the Institute of Chartered Accountants of Nigeria Act No 15 of 1965...
- 21.2.8 Failure of a member to respond to any publication requiring such a member to appear before the Investigating Panel will constitute an act of professional misconduct.
- 21.2.9 A Member of the Institute who changes his address from the original address he has with the Institute without giving the Institute notice of the change thereof, is deemed to have committed an Act of professional misconduct.
- 21.2.10 Any member of the Institute who has been declared guilty of Professional Misconduct by the Accountants' Disciplinary Tribunal shall not be eligible either to serve on the Institute's Council or any of the Institute's committees for a period of five (5) years from the date of re-admission into membership.

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² Discuss 21.2.10 with committee members (if the 5 years is after serving the sentence imposed by the Tribunal or)

DEFINITIONS

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

Accountancy Practice - includes Assurance, Investigation, Forensic Accounting, Tax Practice, Consultancy Practice, Insolvency/Receivership and Financial Advisory Services.

Advertising- The communication to the public of information as to the services or skills provided by Chartered Accountants in public practice with a view to procuring professional business.

Assurance Client - means an audit client.

Assurance Client: The responsible party that is the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the subject matter; or
- (b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter. (For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)

Assurance engagement: An engagement in which a Chartered 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.

Assurance team (a) All members of the engagement team for the assurance engagement;
(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's Chief executive;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; and
- (b) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.

Bare Trustees:

Comments- These are explanatory statements on areas or issues where doubts exist.

Chartered Accountant: An individual who is a member of The Institute of Chartered Accountants of Nigeria.

Chartered Accountant in business: A Chartered Accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the Public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a Chartered Accountant contracted by such entities.

Chartered Accountant in public practice:

A Chartered Accountant, irrespective of functional classification (e.g., Audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of Chartered Accountants in public practice

Clearly insignificant: A matter that is deemed to be both trivial and inconsequential.

Close family: A parent, child or sibling, who is an immediate family member.

Contingent fee: A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.

Direct financial interest: A financial interest: owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or

- Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.

Director or Officer: Those charged with the governance of an entity, regardless of their title, which may vary from time to time.

Discussion - means explanations and further clarification.

Engagement Partner: The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement quality control review: A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.

Engagement team :All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

Existing accountant: A Chartered Accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.

Financial interest: An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial statements: The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.

Financial statement audit client: An entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will always include its related entities.

Financial statement audit engagement: A reasonable assurance engagement in which a Chartered Accountant in public practice expresses an opinion whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is a financial statement audit required by legislation or other regulation.

Firm: (a) A sole practitioner, partnership or corporation of Chartered Accountants;
(b) An entity that controls such parties; and
(c) An entity controlled by such parties.

Financial Statements Audit Client - means a client who has retained a member to act as an external auditor as against carrying out other assurance agents e.g. value for money audit to the financial statement of the issuing firm.

Guidance- are further exposition of the subject matter in order to assist the Chartered Accountant to understand the fundamental Principles which is aimed at achieving best professional practices.

Infamous Conduct - means any act or omission, which by the standards of the Institute is shameful or disgraceful.

ICAN Act - is the Federal legislation with any amendments first known as Act of Parliament No. 15 of 1965 and subsequent re-enactments to regulate the profession of accountancy and for matters connected therewith.

Immediate family : A spouse (or equivalent) or dependant

Independence: Independence is:

- (a) Independence of mind - the states of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional judgment.
- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

Indirect financial interest: A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.

Letterhead - means any known format or design of which a member usually represents or intends to represent its name and address on its writing paper.

Misconduct - means any unlawful or improper or immoral behaviour; the failure, omission or violation of law or duty.

Member - means any member of the Institute, and *membership* shall be construed accordingly.

Member firm - means:

- a) a *member* engaged in public practice as a sole practitioner; or
- b) a partnership engaged in public practice of which all the partners are member.

Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

Professional Misconduct - means any dishonest act or attempt to subvert the course of the accounting profession by use of deceptive or reprehensible methods, whether deliberate or not.

Procedure - means the formal steps for undertaking any process under the Rules

Procedures- are steps taken by Firms to ensure that threats to fundamental Principles are recognized, documented and mitigated. These might not be disclosed to outsiders unless the disciplinary or regulatory follow up requires it.

Professional services: Services requiring accountancy or related skills performed by a Chartered Accountant including accounting, auditing, taxation, Management consulting and financial management services.

Quoted Entity - means a listed company on any of the Stock Exchange. **Listed entity:** An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

Related entity: An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client provided the client is material to such entity;
- (b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;
- (d) An entity over which the client has direct or indirect control;
- (e) An entity in which the client, or an entity related to the client under
- (c) Above has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
An entity which is under common control with the client (hereinafter a "sister entity") provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

Statements - (or **Financial Reports**) are a record of a business' financial flows (revenues/expenses) and levels (assets/liabilities), including Income Statement, Balance Sheet, Cash flow Statement, Statements of changes in Shareholder equity, etc.