Registered Professional Accountant

RPA Professional Code of Ethics

2023 Edition

Accountants for Small and Medium Sized Businesses

The Society of Professional Accountants of Canada
www.RPACanada.org

Preamble

The RPA Code of Professional Conduct, hereafter referred to as: “the Ethics Code,” “the Code,” “the Code of Ethics,” or “the RPA Code”, spells out in detail the general and specific duties for fair non-assurance financial reporting and business practices, transparency and accountability owed by all members to clients and the profession in particular, and to the public in general.

Members are not only themselves responsible to the Society of Professional Accountants of Canada (SPAC) and Canadian Institute of Accredited Accountants (CIAPA) for compliance with the Ethics Code, but are also responsible for others directly under their supervision to adhere to the Code of Ethics.

The RPA Professional Code of Ethics came into effect on November 18, 2021. The former Professional Code of Conduct and Ethics interpretations were repealed as of that date.

The fundamental principles of honorable conduct and ethics, which are: Professional Behavior, Integrity, Due Care, Objectivity, Professional Competence and Confidentiality, are of paramount importance to all Registered Professional Accountants throughout the globe, and these very principles are the hallmarks of the RPA Code.

Basis of SPAC Code of Ethics

The Professional Code of Ethics of the Society of Professional Accountants of Canada (SPAC) and Canadian Institute of Accredited Professional Accountants (CIAPA) has been established in accordance with the International Ethics Standards Board for Accountants (IESBA) 2021. *The Society’s Professional Code of Ethics 2023 mirrors the suitable, relevant, and appropriate standards from the International Ethics Standards Board for Accountants (IESBA) for RPA and APA designations.*

The SPAC's members with RPA and APA designations are not licensed public accountants and do not perform the assurance engagements (audit and review), however RPAs and APAs use this Code of Ethics in compilation engagements using Canadian Standards on Related Services (CSRS 4200), issued by the Audit and Assurance Standards Board (AASB).

Obligation to Report

All members have an obligation to report to the SPAC if they have been convicted of fraud, theft, forgery or any other illegal activities, and shall co-operate with any regulatory process imposed by the association and shall not hinder such processes.

Professional Competence and Compliance

A member shall maintain professional competence by keeping himself informed of developments within the profession with respect to the professional services he performs. He shall comply with the requirement to take a minimum amount of CPD professional development courses as prescribed by the association.

A member shall consistently perform professional services in accordance with the generally accepted standards of practice of the accounting profession.

Fees

A member may not provide service for a fee that the member knows is significantly lower than that charged by the predecessor or other members, except if the member can show that the service will be performed in accordance with all applicable professional standards and competencies.

Before providing a fee quotation to perform any professional service, a member shall obtain sufficient information concerning the nature and scope of the service to be performed, and shall render billings for professional services on a fair and reasonable basis. The member shall provide appropriate explanations as necessary so that the client is able to understand such billings.

False Representations

A member shall not affix his signature or associate himself in any way whatsoever with any document, report, or financial statement which the member knows (or should know) is false or misleading, notwithstanding if the signing or association is subject to a disclaimer of responsibility. Likewise, a member shall not associate himself with any oral statement or representation which the member knows (or should know) is false or misleading.

Confidentiality

A member shall not disclose any confidential information concerning the affairs of any client or former client, except when carrying out his professional duties, or when the client or former client has given his express consent to do so, or when he is required to do so by lawful authority. This duty of maintaining confidentiality does not diminish or disappear with time.

Advertising and Promotion

A member may advertise his services and may try to find new engagements and clients by various methods, but shall not do so, directly or indirectly, in any manner which the member knows (or should know) is false or misleading or makes claims which cannot be substantiated, or which reflects poorly on the competence or integrity of the profession or any other member or firm.

Communication with Predecessor

When a member is asked by a potential client to replace another accounting professional, she shall request that the potential client inform the outgoing accountant of such a decision himself, and she shall not agree to accept such engagement without taking reasonable steps to contact the predecessor and enquire whether there are any circumstances that should be considered which might influence the decision whether to accept the potential client.

Upon request (preferably written) by the client and on a timely basis, the departing member shall supply reasonable and necessary client information to the successor accountant whether she is a member or not.

Note: References to “he” or “him” can also be interpreted as “she” or “her,” and vice versa.

The Society of Professional Accountants of Canada

GUIDE TO THE CODE

Purpose of the Code

The Code of Ethics for The Society of Professional Accountants ("the Ethics Code") *sets out fundamental principles of ethics* for Registered Professional Accountants, reflecting the profession's recognition of its responsibility to the public interest. These principles establish the Standard of Behavior expected of a Registered Professional Accountant.

The Fundamental Principles

The Fundamental Principles are**:** ***integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.***

The Ethics Code provides a framework that Registered Professional Accountants are to apply to identify, evaluate and address threats to compliance with the fundamental principles. The Ethics Code sets out requirements and application material on various topics to help accountants apply the conceptual framework to those topics.

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PART 1 - COMPLYING WITH THE CODE

General

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A Registered Professional Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Ethics Code contains requirements and application material to enable Registered Professional Accountants to meet their responsibility to act in the public interest.

The requirements in the Ethics Code impose obligations.

The application material provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Ethics Code. In particular, the application material is intended to help a Registered Professional Accountant to understand how to apply the Ethics Code to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Ethics Code.

A Registered Professional Accountant shall comply with the Ethics Code. However, there might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Ethics Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Ethics Code.

The principle of professional behavior requires a Registered Professional Accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from, or go beyond, those set out in the Ethics Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.

A Registered Professional Accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Ethics Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

Breaches of the Code

A Registered Professional Accountant who identifies a breach of any provision of the Ethics Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

(a) take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) determine whether to report the breach to the relevant parties.

Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

THE FUNDAMENTAL PRINCIPLES

There are five fundamental principles of ethics for Registered Professional Accountants:

(a) **Integrity:** Be straightforward and honest in all professional and business relationships.

(b) **Objectivity:** Do not compromise professional or business judgments because of bias, conflict of interest or undue influence of others.

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

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation.

(ii) Act diligently and in accordance with applicable technical and professional standards.

(d) **Confidentiality:** Respect the confidentiality of information acquired because of professional and business relationships.

(e) **Professional Behavior:** Comply with relevant laws and regulations, and avoid any conduct that the Registered Professional Accountant knows (or should know) might discredit the profession.

A Registered Professional Accountant shall comply with each of the fundamental principles.

The fundamental principles of ethics establish the Standard of Behavior expected of a Registered Professional Accountant. The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles. The Ethics Code sets out requirements and application material related to each of the fundamental principles.

A Registered Professional Accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles.

In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

a) others within the firm or employing organization;
b) those charged with governance;
c) a professional body;
d) a regulatory body; and
e) legal counsel.

However, such consultation does not relieve the accountant of the responsibility to exercise professional judgment to resolve the conflict or (if necessary, and unless prohibited by law or regulation) disassociate from the matter creating the conflict. The Registered Professional Accountant is encouraged to *document* the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

Integrity

A Registered Professional Accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

Integrity implies fair dealing and truthfulness.

A Registered Professional Accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

(a) contains a materially false or misleading statement;

(b) contains statements or information provided recklessly; or

(c) omits or obscures required information where such omission or obscurity is misleading.

If a Registered Professional Accountant provides a modified report in response to such a substandard report, return, communication or other information, the accountant is not in breach. When a Registered Professional Accountant becomes aware of having been associated with false, reckless, or misleading information, as described in the Ethics Code, the accountant shall take steps to be disassociated from that information.

Objectivity

A Registered Professional Accountant shall comply with the principle of objectivity, which requires an accountant to not compromise professional or business judgment because of bias, conflict of interest or undue influence of others. A Registered Professional Accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Professional Competence and Due Care

A Registered Professional Accountant (RPA) shall attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation.

An RPA shall act diligently and in accordance with applicable technical and professional standards.

Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities. Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a Registered Professional Accountant to develop and maintain the capabilities to perform competently within the professional environment.

Diligence encompasses the responsibility to act carefully, thoroughly and on a timely basis in accordance with the requirements of an assignment.. In complying with the principle of professional competence and due care, a Registered Professional Accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision. Where appropriate, a Registered Professional Accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

Confidentiality

Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or close family member.

(a) Always maintain confidentiality as a rule.

(b) Maintain confidentiality of information within the firm or employing organization.

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization.

(d) Do not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose.

(e) Do not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party.

(f) Do not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended.

(g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

Confidentiality serves the public interest because it facilitates the free flow of information from the Registered Professional Accountant's client or employing organization to the accountant, in the knowledge that the information will not be disclosed to a third party.

Nevertheless, the following are circumstances where Registered Professional Accountants are (or might be) required to disclose confidential information, or when such disclosure might be appropriate:

(a) Disclosure is required by law. For example:

- (i) Production of documents or other provision of evidence during legal proceedings.
- (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light.

(b) Disclosure is permitted by law and is authorized by the client or the employing organization.

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

(i) to comply with the quality review of a professional body;

(ii) to respond to an inquiry or investigation by a professional or regulatory body;

(iii) to protect the professional interests of a professional accountant in legal proceedings; and

(iv) to comply with technical and professional standards, including ethics requirements.

*In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include***:**

a) whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the Registered Professional Accountant; and
b) whether all the relevant information is known and substantiated, to the extent practicable.

Factors affecting the decision to disclose include:

a) unsubstantiated facts;
b) incomplete information;
c) unsubstantiated conclusions;
d) the proposed type of communication, and to whom it is addressed; and
e) whether the parties to whom the communication is addressed are appropriate recipients.

A Registered Professional Accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience, but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

Professional Behavior

Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A Registered Professional Accountant shall be honest and truthful, and shall not make:

(a) exaggerated claims regarding the services offered by, or the qualifications or experience of, the accountant; or

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

If a Registered Professional Accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

THE CONCEPTUAL FRAMEWORK

The circumstances in which Registered Professional Accountants operate might create threats to compliance with the fundamental principles. The Code sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Ethics Code.

The conceptual framework specifies an approach for a Registered Professional Accountant to:

(a) identify threats to compliance with the fundamental principles;

(b) evaluate the threats identified; and

(c) address the threats by eliminating or reducing them to an acceptable level.

Where an individual who is a Registered Professional Accountant in professional practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in the Ethics Code that apply to these circumstances.

When applying the conceptual framework, the Registered Professional Accountant shall:

(a) exercise professional judgment;

(b) remain alert for new information and to changes in facts and circumstances; and

(c) use the reasonable and informed third party test described in the Ethics Code.

Exercising Professional Judgment

Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the Registered Professional Accountant applies the Ethics Code in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

An understanding of known facts and circumstances is a prerequisite to the proper application of the Ethics Code. Determining the actions necessary to obtain this understanding, and concluding about whether the fundamental principles have been complied with, also require the exercise of professional judgment.

In exercising professional judgment to obtain this understanding, the Registered Professional Accountant might consider, among other matters, whether:

a) there is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant;
b) there is an inconsistency between the known facts and circumstances and the accountant's expectations;
c) the accountant's expertise and experience are sufficient to reach a conclusion;
d) there is a need to consult with others with relevant expertise or experience;
e) the information provides a reasonable basis on which to reach a conclusion;
f) the accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment; or
g) there might be other reasonable conclusions that could be reached from the available information.

Reasonable and Informed Third Party

The reasonable and informed third party test is a consideration by the Registered Professional Accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Identifying Threats

The Registered Professional Accountant shall identify threats to compliance with the fundamental principles.

An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the Registered Professional Accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. The code includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

Threats to compliance with the fundamental principles fall into one or more of the following categories:

(a) **Self-Interest Threat:** The threat that a financial or other interest will inappropriately influence a Registered Professional Accountant's judgment or behavior.

(b) **Self-Review Threat:** The threat that a Registered Professional Accountant will not appropriately evaluate the results of a previous judgment made, or of an activity performed by the accountant or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity.

(c) **Advocacy Threat:** The threat that a Registered Professional Accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised.

(d) **Familiarity Threat:** The threat that due to a long or close relationship with a client, or employing organization, a Registered Professional Accountant will be too sympathetic to their interests.

(e) **Intimidation Threat:** The threat that a Registered Professional Accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

When the Registered Professional Accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

An acceptable level is a level at which a Registered Professional Accountant, using the reasonable and informed third party test, would likely conclude that the accountant complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

The consideration of qualitative as well as quantitative factors is relevant in the Registered Professional Accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable. The existence of conditions, policies and procedures described in the Ethics Code might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements
- Educational, training and experience requirements for the profession
- Effective complaints systems which enable the Registered Professional Accountant and the general public to draw attention to unethical behaviour.

- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures

If the Registered Professional Accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

Remaining alert throughout the professional activity assists the Registered Professional Accountant in determining whether new information has emerged, or changes in facts and circumstances have occurred, that:

(a) impact the level of a threat; or

(b) affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

If new information results in the identification of a new threat, the Registered Professional Accountant is required to evaluate and, as appropriate, address this threat.

If the Registered Professional Accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level.

The accountant shall do so by:

(a) eliminating the circumstances, including interests or relationships, that are creating the threats;

(b) applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(c) declining or ending the specific professional activity.

Actions to Eliminate Threats

Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated, and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

Safeguards are actions, individually or in combination, that the Registered Professional Accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgments

The Registered Professional Accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

(a) review any significant judgments made; and

(b) use the reasonable and informed third party test.

Considerations for Non-Assurance Compilations and Other Non-Assurance Engagements

Independence

Registered Professional Accountants in professional practice are required to be independent when performing non-assurance compilations, or other non-assurance engagements. Independence is linked to the fundamental principles of **objectivity** and **integrity**.

It comprises:

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

(b) Independence in Appearance: The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that an accountant's integrity, objectivity or professional skepticism has been compromised.

Independence Standards set out requirements and application material on how to apply the Ethics Code to maintain independence when performing non-assurance. Registered Professional Accountants and firms are required to comply with these standards in order to be independent when conducting such engagements.

The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. *The categories of threats to compliance with the fundamental principles described in the Code are also the categories of threats to compliance with independence requirements.*

Professional Skepticism

Under non-assurance compilation, Registered Professional Accountants in professional practice are required to exercise professional skepticism when planning and performing non-assurance compilations, and other engagements.

*In a non-assurance compilation of financial information**, compliance with the fundamental principles**, individually and collectively, **supports the exercise of professional skepticism**, as shown in the following examples:*

1) **Integrity** requires the Registered Professional Accountant to be straightforward and honest.

*For example, the accountant complies with the principle of **integrity** by:*

(i) being straightforward and honest when raising concerns about a position taken by a client; and

(ii) pursuing inquiries about inconsistent information and seeking further non-assurance compilation evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.

In doing so, the accountant demonstrates the critical assessment of non-assurance compilation evidence that contributes to the exercise of professional skepticism.

2) **Objectivity** requires the Registered Professional Accountant to not compromise professional or business judgment because of bias, conflict of interest or the undue influence of others.

*For example, the accountant complies with the principle of **objectivity** by:*

(i) recognizing circumstances or relationships, such as familiarity with the client, that might compromise the accountant's professional or business judgment; and

(ii) considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of non-assurance compilation evidence related to a matter material to the client's compiled financial information (non-assurance).

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

3) **Professional Competence and Due Care** require the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations.

*For example, the accountant complies with the principle of **professional competence and due care** by:*

(i) applying knowledge that is relevant to a particular client's industry and business activities order to properly identify risks of material misstatement;

(ii) designing and performing appropriate non-assurance compilation procedures; and

(iii) applying relevant knowledge when critically assessing whether non-assurance compilation evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS

Section 1: APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

This Part of the Ethics Code sets out requirements and application material for Registered Professional Accountants in business when applying the conceptual framework set out in the Code. It does not describe all of the facts and circumstances (including professional activities, interests and relationships) that could be encountered by Registered Professional Accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires Registered Professional Accountants in business to be alert for such facts and circumstances.

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

A Registered Professional Accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.

In this Part, the term "Registered Professional Accountant" refers to:

(a) a Registered Professional Accountant in business; and

(b) an individual who is a Registered Professional Accountant in professional practice when performing professional activities pursuant to the accountant's relationship with the accountant's firm, whether as a contractor, employee, or owner. More information on when this is applicable to Registered Professional Accountants in professional practice is set out in the Code.

Requirements and Application Material

A Registered Professional Accountant shall comply with the fundamental principles set out the Ethics Code, and apply the framework set out in the Ethics Code to identify, evaluate, and address threats to compliance with the fundamental principles.

A Registered Professional Accountant has a responsibility to further the legitimate objectives of the accountant's employing organization. The Ethics Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

Registered Professional Accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat. The more senior the position of a Registered Professional Accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization.

To the extent that they can do so, considering their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:

a) ethics education and training programs;
b) ethics and whistle-blowing policies; and
c) policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances.

The categories of threats are described in the Code. The following are examples of facts and circumstances within each of those categories that might create threats for a Registered Professional Accountant when undertaking a professional activity:

Self-Interest Threats:

a) A Registered Professional Accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
b) A Registered Professional Accountant participating in incentive compensation arrangements offered by the employing organization.
c) A Registered Professional Accountant having access to corporate assets for personal use.
d) A Registered Professional Accountant being offered a gift or special treatment from a supplier of the employing organization.

Self-Review Threats

A Registered Professional Accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

Advocacy Threats

A Registered Professional Accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.

Familiarity Threats

A Registered Professional Accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.

A Registered Professional Accountant having a long association with individuals influencing business decisions.

Intimidation Threats

A Registered Professional Accountant, or immediate or close family member, facing the threat of dismissal or replacement over a disagreement about:

a) the application of an accounting principle;
b) the way in which financial information is to be reported; and/or
c) an individual attempting to influence the decision-making process of the Registered Professional Accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

Evaluating Threats

The conditions, policies and procedures described in the Code might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

The Registered Professional Accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.

The Registered Professional Accountant's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. *For example:*

a) Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
b) Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
c) Policies and procedures to implement and monitor the quality of employee performance.
d) Systems of corporate oversight, or other oversight structures, and strong internal controls.

e) Recruitment procedures emphasizing the importance of employing high caliber, competent personnel.
f) Timely communication of policies and procedures (including any changes to them) to all employees, and appropriate training and education on such policies and procedures.
g) Ethics and code of conduct policies

Registered Professional Accountants might consider obtaining legal advice where they believe that unethical behavior or actions by others have occurred, or will continue to occur, within the employing organization.

<u>Addressing Threats</u>

The remaining sections in Part 2 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.

In extreme situations, if the circumstances that created the threats cannot be eliminated, and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for a Registered Professional Accountant to resign from the employing organization.

Communicating with Those Charged with Governance

When communicating with those charged with governance in accordance with the Code, a Registered Professional Accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

In determining with whom to communicate, a Registered Professional Accountant might consider:

(a) the nature and importance of the circumstances; and

(b) the matter to be communicated.

Examples of a subgroup of those charged with governance include a non-assurance compilation committee or an individual member of those charged with governance.

If a Registered Professional Accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

In some circumstances, all of those charged with governance are involved in managing the employing organization. For example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the Registered Professional Accountant has satisfied the requirement to communicate with those charged with governance.

Section 2: CONFLICTS OF INTEREST

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

(a) a Registered Professional Accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

(b) the interest of a Registered Professional Accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.

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

This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

Requirements and Application Material

A Registered Professional Accountant shall not allow a conflict of interest to compromise professional or business judgment.

Examples of circumstances that might create a conflict of interest include the following:

a) Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.

b) Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

Conflict Identification

A Registered Professional Accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

(a) the nature of the relevant interests and relationships between the parties involved; and

(b) the activity and its implication for relevant parties.

A Registered Professional Accountant shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Threats Created by Conflicts of Interest

In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

Examples of actions that might be safeguards to address threats created by conflicts of interest:

a) Restructuring or segregating certain responsibilities and duties.

b) Obtaining appropriate oversight. For example, acting under the supervision of an executive or non-executive director.

Disclosure and Consent

It is generally necessary to:

(a) disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organization affected by a conflict; and

(b) obtain consent from the relevant parties for the Registered Professional Accountant to undertake the professional activity when safeguards are applied to address the threat.

Consent might be implied by a party's conduct in circumstances where the Registered Professional Accountant has sufficient evidence to conclude that the parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

If such disclosure or consent is not in writing, the professional accountant is encouraged to document:

(a) the nature of the circumstances giving rise to the conflict of interest;

(b) the safeguards applied to address the threats when applicable; and

(c) the consent obtained.

Other Considerations

When addressing a conflict of interest, the Registered Professional Accountant is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another accountant. When making such disclosures or sharing information within the employing organization and seeking guidance of third parties, the principle of confidentiality applies.

Section 3: <u>PREPARATION AND PRESENTATION OF INFORMATION</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

Preparing or presenting information might create self-interest, intimidation, or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Registered Professional Accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

Stakeholders to whom, or for whom, such information is prepared or presented, include:

a) management and those charged with governance;
b) investors and lenders or other creditors; and
c) regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's state of affairs, and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

a) operating and performance reports;
b) decision support analyses;
c) budgets and forecasts;
d) information provided to the internal and external non-assurance compilations;
e) risk analyses; and
f) general and special purpose compiled financial information (non-assurance).

When preparing or presenting information, a Registered Professional Accountant shall:

a) prepare or present the information in accordance with a relevant reporting framework, where applicable;
b) prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
c) exercise professional judgment to:

- represent the facts accurately and completely in all material respects,
- describe clearly the true nature of business transactions or activities, and
- classify and record information in a timely and proper manner; and

d) not omit anything with the intention of rendering the information misleading, or of influencing contractual or regulatory outcomes inappropriately.

An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant, or of a regulatory requirement such as a capital requirement for a financial institution.

Use of Discretion in Preparing or Presenting Information

Preparing or presenting information might require the exercise of discretion in making professional judgments. The Registered Professional Accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

Examples of ways in which discretion might be misused to achieve inappropriate outcomes:

a) Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework. For example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.

b) Determining the timing of transactions. For example, timing the sale of an asset near the end of the fiscal year in order to mislead.

c) Determining the structuring of transactions. For example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.

d) Selecting disclosures. For example, omitting or obscuring information relating to financial or operating risk in order to mislead.

When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the Registered Professional Accountant shall exercise professional judgment to identify and consider:

(a) the purpose for which the information is to be used;

(b) the context within which it is given; and

(c) the audience to whom it is addressed.

For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

The Registered Professional Accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

Relying on the Work of Others

A Registered Professional Accountant who intends to rely on the work of others, either internal or external to the employing organization, shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in the Code.

Factors to consider in determining whether reliance on others is reasonable include:

a) the reputation and expertise of, and resources available to, the other individual or organization; and

b) whether the other individual is subject to applicable professional and ethical standards.

Addressing Information that Is or Might be Misleading

When the Registered Professional Accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

Actions that might be appropriate include the following:

a) Discussing concerns that the information is misleading with the Registered Professional Accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:

- having the information corrected; and
- informing the intended users of the correct information if the misleading information has already been disclosed to them.

b) Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

The Registered Professional Accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate, *provided that the accountant remains **alert to the principle of confidentiality**:*

c) Consulting with: a relevant professional body, the internal or external non-assurance compilation of the employing organization, and/or legal counsel.

d) Determining whether any requirements exist to communicate to:

- third parties, including users of the information; and/or
- regulatory and oversight authorities.

If after exhausting all feasible options, the Registered Professional Accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be, or to remain, associated with the information.

In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

Documentation

The Registered Professional Accountant is encouraged to document:

a) the facts;
b) the accounting principles or other relevant professional standards involved;
c) the communications and parties with whom matters were discussed;
d) the courses of action considered; and
e) how the accountant attempted to address the matter(s).

Other Considerations

Where threats to compliance with the fundamental principles relating to the preparation and/or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in the Code apply.

Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in the Code apply.

Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in the Code apply. See section 8: Pressure to Breach the Fundamental Principles.

Section 4: ACTING WITH SUFFICIENT EXPERTISE

Acting without sufficient experience creates a self-interest threat to compliance with the principle of professional competence and due care.

Requirements and Application Material

A Registered Professional Accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.

The principle of professional competence and due care requires that a Registered Professional Accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.

A self-interest threat to compliance with the principle of professional competence and due care might be created if a Registered Professional Accountant has:

a) insufficient time for performing or completing the relevant duties;
b) incomplete, restricted or otherwise inadequate information for performing the duties;
c) insufficient experience, training and/or education; and/or
d) inadequate resources for the performance of the duties.

Factors that are relevant in evaluating the level of such a threat include:

a) the extent to which the Registered Professional Accountant is working with others;
b) the relative seniority of the accountant in the business; and
c) the level of supervision and review applied to the work.

Examples of actions that might be safeguards to address such a self-interest threat include:

a) obtaining assistance or training from someone with the necessary expertise; and
b) ensuring that there is adequate time available for performing the relevant duties.

If a threat to compliance with the principle of professional competence and due care cannot be addressed, a Registered Professional Accountant shall determine whether to decline to perform the duties in question. If the accountant determines that declining is appropriate, the accountant shall communicate the reasons.

Other Considerations

The requirements and application material in the final section of Part 2 of the Code, entitled “Pressure to Breach the Fundamental Principles,” apply when a Registered Professional Accountant is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

Section 5: FINANCIAL INTERESTS ARISING FROM COMPENSATION OR INCENTIVE ARRANGEMENTS LINKED TO FINANCIAL REPORTING AND DECISION-MAKING

Requirements and Application Material

A Registered Professional Accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others. Registered Professional Accountants might have financial interests, or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles, *such as a self-interest threat to compliance with the principles of objectivity or confidentiality.*

Examples of circumstances that might create a self-interest threat include situations in which the Registered Professional Accountant, or an immediate or close family member:

a) has a motive and opportunity to manipulate price-sensitive information in order to gain financially;

b) holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant;

c) is eligible for a profit-related bonus, and the value of that bonus might be directly affected by decisions made by the accountant;

d) holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant;

e) participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

Factors that are relevant in evaluating the level of such a threat include the following:

a) The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.

b) Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.

c) In accordance with any internal policies, disclosure to those charged with governance of:
   - all relevant interests; and
   - any plans to exercise entitlements or trade in relevant shares.

d) Internal and external non-assurance compilation procedures that are specific to address issues that give rise to the financial interest.

Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. (See section 8: Pressure to Breach the Fundamental Principles.)

Section 6: INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.

This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires a Registered Professional Accountant to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

An inducement is *an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between business colleagues, to acts that result in non-compliance with laws and regulations.*

An inducement can take many different forms. For example:

a) Gifts
b) Hospitality
c) Entertainment
d) Political or charitable donations
e) Appeals to friendship and loyalty
f) Employment or other commercial opportunities
g) Preferential treatment, rights or privileges

Inducements Prohibited by Laws and Regulations

In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The Registered Professional Accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

The offering or accepting of inducements that are not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements <u>with Intent</u> to Improperly Influence Behavior

A Registered Professional Accountant shall *not offer*, *or encourage others to offer*, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

A Registered Professional Accountant shall *not accept, or encourage others to accept,* any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient, or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a Registered Professional Accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals.

*A breach of the fundamental principle of **integrity** arises when a Registered Professional Accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.*

***The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include the following:**

a) The nature, frequency, value and cumulative effect of the inducement.
b) Timing of when the inducement is offered relative to any action or decision that it might influence.
c) Whether the inducement is a customary or cultural practice in the circumstances. For example, offering a gift on the occasion of a religious holiday or wedding.
d) Whether the inducement is an ancillary part of a professional activity. For example, offering or accepting lunch in connection with a business meeting.
e) Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organization, such as other customers or vendors.
f) The roles and positions of the individuals offering or being offered the inducement.
g) Whether the Registered Professional Accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization.
h) The degree of transparency with which the inducement is offered.
i) Whether the inducement was required or requested by the recipient.
j) The known previous behavior or reputation of the offeror.

Consideration of Further Actions

If the Registered Professional Accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if some requirements of the Ethics Code are met.

Examples of actions that might be* *safeguards* *to address such threats include:

a) informing senior management, or those charged with governance of the employing organization of the Registered Professional Accountant, or the offeror, regarding the offer; and/or

b) amending or terminating the business relationship with the offeror.

Inducements with No Intent to Improperly Influence Behavior

The requirements and application material set out in the conceptual framework apply when a Registered Professional Accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.
Examples of circumstances where offering or accepting such an inducement might create threats, even if the Registered Professional Accountant has concluded there is no actual or perceived intent to improperly influence behavior:

a) **Self-interest threats**

- A Registered Professional Accountant is offered part-time employment by a vendor.

b) **Familiarity threats**

- A Registered Professional Accountant regularly takes a customer or supplier to sporting events.

c) **Intimidation threats**

- A Registered Professional Accountant accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

*Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in this section of the Code on *p.30* for determining intent.*

Examples of actions that might eliminate threats created by offering or accepting such an inducement:

a) Declining or not offering the inducement.

b) Transferring responsibility for any business-related decision involving the counterparty to another individual who the Registered Professional Accountant has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement:

a) Being transparent with senior management, or those charged with governance of the employing organization of the Registered Professional Accountant or of the counterparty about offering or accepting an inducement.

b) Registering the inducement in a log maintained by the employing organization of the accountant or the counterparty.

c) Having an appropriate reviewer (who is not otherwise involved in undertaking the professional activity) review any work performed or decisions made by the accountant with respect to the individual or organization from which the accountant accepted the inducement.

d) Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.

e) Reimbursing the cost of the inducement (such as hospitality) received.

f) Returning the inducement, such as a gift, as soon as possible after it was initially accepted.

Immediate or Close Family Members

A Registered Professional Accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by the offering of an inducement:

(a) *by* an immediate or close family member of the accountant *to* a counterparty with whom the accountant has a professional relationship; or

(b) *to* an immediate or close family member of the accountant *by* a counterparty with whom the accountant has a professional relationship.

Where the Registered Professional Accountant becomes aware of an inducement being offered to, or made by, an immediate or close family member and concludes there is intent to improperly influence the behavior of the accountant or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

The factors set out in the Code are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the Registered Professional Accountant or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship between:

(a) the accountant and the immediate or close family member;

(b) the immediate or close family member and the counterparty; and

(c) the accountant and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the accountant by a counterparty with whom the accountant is negotiating a significant contract might indicate such intent.

The application material regarding safeguards (*see page 31*) is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the Registered Professional Accountant or of the counterparty, even if the immediate or close family member has followed the advice given in the Code by not accepting the inducement.

Where the Registered Professional Accountant becomes aware of an inducement offered in the circumstances addressed at the beginning of this section regarding immediate or close family members, threats to compliance with the fundamental principles might be created where:

(a) the immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to the Code; or

(b) the accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the counterparty exists.

The application material in the preceding subsection "Inducements with No Intent to Improperly Influence Behavior" is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in this section of the Code.

Other Considerations

If a Registered Professional Accountant is offered an inducement by the employing organization relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in the section immediately preceding this one, entitled "Section 5: Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Marking," apply.

If a Registered Professional Accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organization, the requirements and application material set out in the next section of the Ethics Code, entitled "Section 7: Responding to Non-Compliance with Laws and Regulations," apply.

If a Registered Professional Accountant faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in section 8: Pressure to Breach the Fundamental Principles, apply.

Section 7: <u>RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a Registered Professional Accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

A Registered Professional Accountant might encounter, or be made aware of, non-compliance or suspected non-compliance while carrying out professional activities.

This section guides the accountant in assessing the implications of the matter, and the possible courses of action when responding to non-compliance or suspected non-compliance with:

a) laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's compiled financial information (non-assurance); and
b) other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's compiled financial information (non-assurance), but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Registered Professional Accountant in Relation to Non-Compliance with Laws and Regulations

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

When responding to non-compliance or suspected non-compliance, the objectives of the Registered Professional Accountant are as follows:

(a) To comply with the principles of **integrity** and **professional behavior**.

(b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:

(i) enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) deter the non-compliance where it has not yet occurred.

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

Requirements and Application Material

General

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) The Registered Professional Accountant's employing organization;

(b) Those charged with governance of the employing organization;

(c) Management of the employing organization; or

(d) Other individuals working for or under the direction of the employing organization.

Examples of laws and regulations which this section addresses include those that deal with:

a) fraud, corruption and bribery;
b) money laundering, terrorist financing and proceeds of crime;
c) securities markets and trading;
d) banking and other financial products and services;
e) data protection;
f) tax and pension liabilities and payments;
g) environmental protection; and
h) public health and safety.

Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its compiled financial information (non-assurance). Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public.

For the purposes of this section, non-compliance that causes substantial harm is one that results in <u>serious adverse consequences</u> to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

In some jurisdictions, there are legal or regulatory provisions governing how Registered Professional Accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from, or go beyond, the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them.

A Registered Professional Accountant who encounters, or is made aware of, matters that are clearly inconsequential is <u>not</u> required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organization, its stakeholders and the general public.

This section does not address:

(a) personal misconduct unrelated to the business activities of the employing organization; and

(b) non-compliance by parties other than those specified in the Code.

The Registered Professional Accountant might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

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

The employing organization's management, with the oversight of those charged with governance, is responsible for ensuring that the employing organization's business activities are conducted in accordance with laws and regulations.

Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

(a) the employing organization;

(b) an individual charged with governance of the employing organization;

(c) a member of management; or

(d) other individuals working for or under the direction of the employing organization.

Responsibilities of All Registered Professional Accountants

If protocols and procedures exist within the Registered Professional Accountant's employing organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such noncompliance.

Many employing organizations have established protocols and procedures regarding how to raise noncompliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

Where a Registered Professional Accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees or the general public.

Responsibilities of Senior Registered Professional Accountants in Business

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

Obtaining an Understanding of the Matter

If, in the course of carrying out professional activities, a senior Registered Professional Accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include:

(a) the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;

(b) the application of the relevant laws and regulations to the circumstances; and

(c) an assessment of the potential consequences to the employing organization, investors, creditors, employees or the wider public.

A senior Registered Professional Accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant’s role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Depending on the nature and significance of the matter, the senior Registered Professional Accountant might cause, or take appropriate steps to cause, the matter to be investigated internally. The accountant might also consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

Addressing the Matter

If the senior Registered Professional Accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to the Code, discuss the matter with the accountant’s immediate superior, if any. If the accountant’s immediate superior appears to be involved in the matter, the accountant shall discuss the matter with the next higher level of authority within the employing organization.

The purpose of the discussion is to enable a determination to be made as to how to address the matter.

The senior Registered Professional Accountant shall also take appropriate steps to:

a) have the matter communicated to those charged with governance;

b) comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;

c) have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;

d) reduce the risk of re-occurrence; and

e) seek to deter the commission of the non-compliance if it has not yet occurred.

The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.

Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

In addition to responding to the matter in accordance with the provisions of this section, the senior Registered Professional Accountant shall determine whether disclosure of the matter to the employing organization's external accountant, if any, is needed.

Such disclosure would be pursuant to the senior Registered Professional Accountant's duty or legal obligation to provide all information necessary to enable the external accountant to perform the non-assurance compilation, or other related services.

Determining Whether Further Action Is Needed

The senior Registered Professional Accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.

Relevant factors to consider in assessing the appropriateness of the response of the senior Registered Professional Accountant's superiors, if any, and those charged with governance include whether:

a) the response is timely;

b) they have taken or authorized appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred;

c) the matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

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

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

a) the legal and regulatory framework;

b) the urgency of the situation;

c) the pervasiveness of the matter throughout the employing organization;

d) whether the senior Registered Professional Accountant continues to have confidence in the integrity of the accountant's superiors and those charged with governance;

e) whether the non-compliance or suspected non-compliance is likely to recur; and

f) whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.

Examples of circumstances that might cause the senior Registered Professional Accountant to no longer have confidence in the integrity of the accountant's superiors and those charged with governance include situations where:

a) the accountant suspects or has evidence of their involvement or intended involvement in any non-compliance;

b) contrary to legal or regulatory requirements, they have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

The senior Registered Professional Accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

Further action that the senior Registered Professional Accountant might take includes the following:

a) Informing the management of the parent entity of the matter if the employing organization is a member of a group.

b) Disclosing the matter to an appropriate authority, even when there is no legal or regulatory requirement to do so.

c) Resigning from the employing organization.

Resigning from the employing organization is <u>not</u> a substitute for taking other actions that might be needed to achieve the senior Registered Professional Accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, resignation might be the only available course of action.

Seeking Advice

As assessment of the matter might involve complex analysis and judgments, the senior Registered Professional Accountant might consider:

a) consulting internally;

b) obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action;

c) consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is, or might be, caused by the matter to investors, creditors, employees or the general public.

For example, the senior Registered Professional Accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

a) the employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts);

b) the employing organization is regulated, and the matter is of such significance as to threaten its license to operate;

c) the employing organization is listed on a securities exchange, and the matter might result in adverse consequences to the fair and orderly market in the employing organization's securities, or pose a systemic risk to the financial markets;

d) it is likely that the employing organization would sell products that are harmful to public health or safety; and/or

e) the employing organization is promoting a scheme to its clients to assist them in evading taxes.

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

a) whether there is an appropriate authority that is able to receive the information and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting, or an environmental protection agency in the case of a breach of environmental laws and regulations;

b) whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation; and

c) whether there are actual or potential threats to the physical safety of the senior Registered Professional Accountant or other individuals.

If the senior Registered Professional Accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

Imminent Breach

In exceptional circumstances, the senior Registered Professional Accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organization, the accountant shall exercise professional judgment and determine whether to disclose the matter *immediately* to an appropriate authority in order to prevent or mitigate the consequences of such an imminent breach. If disclosure is made, that disclosure is permitted pursuant to the Code.

Documentation

In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior Registered Professional Accountant is encouraged to have the following matters documented:

a) The matter
b) The results of discussions with the accountant's superiors, if any, and those charged with governance and other parties.
c) How the accountant's superiors, if any, and those charged with governance have responded to the matter.
d) The courses of action the accountant considered, the judgments made and the decisions that were taken.
e) How the accountant is satisfied that the accountant has fulfilled the responsibility set out regarding the determination of whether further action is needed in the public interest.

Responsibilities of Registered Professional Accountants Other than Senior Registered Professional Accountants

If, in the course of carrying out professional activities, a Registered Professional Accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance, and the circumstances in which it has occurred or might occur.

The Registered Professional Accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Depending on the nature and significance of the matter, the Registered Professional Accountant might consult on a confidential basis with others within the employing organization, or a professional body, or with legal counsel.

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

In exceptional circumstances, the Registered Professional Accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the accountant does so, that disclosure is permitted according to the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

Documentation

In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the Registered Professional Accountant is encouraged to have the following matters documented:

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

Section 8: <u>PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

Pressure exerted on, or by, a Registered Professional Accountant might create an intimidation (or other) threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

A Registered Professional Accountant shall <u>not</u>:

a) allow pressure from others to result in a breach of compliance with the fundamental principles; or

b) place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

A Registered Professional Accountant might face pressure that creates threats to compliance with the fundamental principles, such as <u>an intimidation threat</u>, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

a) within the employing organization, such as from a colleague or superior;

b) an external individual or organization, such as a vendor, customer or lender; and

c) internal or external targets and expectations.

Examples of pressure that might result in threats to compliance with the fundamental principles include the following:

a) Pressure related to conflicts of interest:
- Pressure from a family member bidding to act as a vendor to the Registered Professional Accountant's employing organization to select the family member over another prospective vendor.

b) Pressure to influence preparation or presentation of information:
- Pressure to report misleading financial results to meet investor, analyst or lender expectations.
- Pressure from elected officials on registered professional accountants to misrepresent programs or projects to voters.
- Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal non-assurance compilation reports containing adverse findings.

c) Pressure to act without sufficient expertise or due care:
   - Pressure from superiors to inappropriately reduce the extent of work performed.
   - Pressure from superiors to perform a task without sufficient skills or training, or within unrealistic deadlines.

d) Pressure related to financial interests:
   - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

e) Pressure related to inducements:
   - Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision-making process of an individual or organization.
   - Pressure from colleagues to accept a bribe or other inducement, such as inappropriate gifts or entertainment from potential vendors in a bidding process.

f) Pressure related to non-compliance with laws and regulations:
   - Pressure to structure a transaction to evade tax.

Evaluating the Level of Threats Created by Pressure

Factors that are relevant in evaluating the level of threats created by pressure include the following:

- The intent of the individual who is exerting the pressure, and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organization, including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

*Discussing the circumstances creating the pressure, and consulting with others about those circumstances, might assist the Registered Professional Accountant to evaluate the level of the threat. Such discussion and consultation, <u>which requires being alert to the principle of **confidentiality**</u>, might include the following:*

a) Discussing the matter with the individual who is exerting the pressure to seek to resolve it.

b) Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.

c) Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
- higher levels of management;
- internal or external non-assurance compilations; or
- those charged with governance.

d) Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.

e) Consulting with:
- a colleague, superior, human resources personnel, or another Registered Professional Accountant;
- relevant professional or regulatory bodies or industry associations; or
- legal counsel.

Eliminating Threats Created by Pressure

An example of an action that might eliminate threats created by pressure is the Registered Professional Accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

Documentation

The Registered Professional Accountant is encouraged to document:

a) the facts;
b) the communications and parties with whom these matters were discussed;
c) the courses of action considered; and
d) how the matter was addressed.

PART 3 - PROFESSIONAL ACCOUNTANTS IN PROFESSIONAL PRACTICE

REGISTERED PROFESSIONAL ACCOUNTANT PRACTITIONERS PROVIDING PROFESSIONAL NON-ASSURANCE COMPILATION SERVICES, TAX PREPARATION, BOOKKEEPING, AND RELATED NON-ASSURANCE SERVICES TO CLIENTS

Section 1: APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

This Part of the Code sets out requirements and application material for Registered Professional Accountants in professional practice when applying the conceptual framework set out in the Code. It does not describe all of the facts and circumstances (including professional activities, interests and relationships) that could be encountered by Registered Professional Accountants in professional practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires Registered Professional Accountants in professional practice to be alert for such facts and circumstances.

In this Part, the term "**Registered Professional Accountant**" refers to individual Registered Professional Accountants in professional practice and their firms.

Requirements and Application Material

General

A Registered Professional Accountant shall comply with the fundamental principles and apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles.

Scope of the Code for the Practitioner: *The Ethics Code as applies to the scope of work for a Registered Professional Accountant in Professional Practice*.

Although a Registered Professional Accountant **does not provide assurance services** (does *not* perform *reviews or audits*) and management of the client takes ultimate responsibility for the compiled financial information, choice of accounting method, and underlying records used to create the compiled financial information, it is necessary for Registered Professional Accountants to exercise professional judgement and apply the Code of Ethics in all their activities.

When dealing with an ethics issue, the Registered Professional Accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a Registered Professional Accountant in professional practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in the Ethics Code that apply to these circumstances.

Examples of situations in which the provisions in Part 2, Professional Accountants in Business, apply to a Registered Professional Accountant in professional practice:

a) Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in the Code apply in these circumstances.

b) Preparing or presenting compiled non-assurance financial information for the accountant's client or firm. The requirements and application material set out in the Code apply in these circumstances.

c) Being offered an inducement, such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in the Code apply in these circumstances.

d) Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in the Code apply in these circumstances.

Identifying Threats

Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in the Code.

The following are examples of facts and circumstances within each of those categories of threats that might create threats for a Registered Professional Accountant when undertaking a professional service:

Self-Interest Threats:

a) A Registered Professional Accountant having a direct financial interest in a client.
b) A Registered Professional Accountant quoting a low fee to obtain a new engagement, and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
c) A Registered Professional Accountant having a close business relationship with a client.
d) A Registered Professional Accountant having access to confidential information that might be used for personal gain.
e) A Registered Professional Accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

Self-Review Threats:

a) A Registered Professional Accountant issuing a report on the effectiveness of the operation of financial systems after implementing the systems.
b) A Registered Professional Accountant having prepared the original data used to generate records that are the subject matter of the engagement and compiling the non-assurance financial information without a third-party review of the resulting report.

Advocacy Threats:

a) A Registered Professional Accountant promoting the interests of, or shares in, a client.
b) A Registered Professional Accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
c) A Registered Professional Accountant lobbying in favor of legislation on behalf of a client.

Familiarity Threats:

a) A Registered Professional Accountant having a close or immediate family member who is a director or officer of the client.
b) A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.

Intimidation Threats:

a) A Registered Professional Accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
b) A Registered Professional Accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
c) A Registered Professional Accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
d) A Registered Professional Accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

The conditions, policies and procedures described in the Code might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

Such conditions, policies and procedures might relate to:

(a) the client and its operating environment; and

(b) the firm and its operating environment.

The Registered Professional Accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Client and its Operating Environment

The corporate governance structure, including the leadership of a client, might promote compliance with the fundamental principles.

Accordingly, a Registered Professional Accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. *For example:*

a) The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
b) The client has competent employees with experience and seniority to make managerial decisions.
c) The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Firm and its Operating Environment

A Registered Professional Accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment.

For example:

a) Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
b) Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
c) Management of the reliance on revenue received from a single client.
d) The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
e) Educational, training and experience requirements.
f) Processes to facilitate and address internal and external concerns or complaints.

Consideration of New Information or Changes in Facts and Circumstances

New information or changes in facts and circumstances might:

(a) impact the level of a threat; or

(b) affect the Registered Professional Accountant's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the Registered Professional Accountant re-evaluate and address the threats accordingly.

Examples of new information or changes in facts and circumstances that might impact the level of a threat:

a) When the scope of a professional service is expanded.
b) When the client becomes a listed entity or acquires another business unit.
c) When the firm merges with another firm.
d) When the Registered Professional Accountant is jointly engaged by two clients and a dispute emerges between the two clients.
e) When there is a change in the Registered Professional Accountant's personal or immediate family relationships.

Addressing Threats

Examples of Safeguards

Safeguards vary depending on the facts and circumstances.

Examples of actions that in certain circumstances might be ***safeguards*** *to address threats:*

a) Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
b) Having an appropriate reviewer (who was not a member of the team) review the work performed, or advise as necessary, might address a self-review threat.
c) Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to a non-assurance client might address self-review, advocacy or familiarity threats.
d) **Involving another firm to perform or re-perform part of the engagement might address all five types of threats: self-interest, self-review, advocacy, familiarity or intimidation threats.**
e) Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
f) Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

Communicating with Those Charged with Governance

When communicating with those charged with governance in accordance with the Code, a Registered Professional Accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

In determining with whom to communicate, a Registered Professional Accountant might consider:

(a) the nature and importance of the circumstances; and

(b) the matter to be communicated.

If a Registered Professional Accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

In some circumstances, all of those charged with governance are involved in managing the entity For example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to the individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the Registered Professional Accountant has satisfied the requirement to communicate with those charged with governance.

Section 2: <u>CONFLICTS OF INTEREST</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

*A conflict of interest creates threats to compliance with the principle of **objectivity** and might create threats to compliance with the other fundamental principles. Such threats might be created when*:

a) a Registered Professional Accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or

b) the interests of a Registered Professional Accountant with respect to a particular matter and the interests of the client for whom the accountant provides a professional service related to that matter are in conflict.

This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a Registered Professional Accountant provides a non-assurance compilation, or other non-assurance service, independence is also required.

Requirements and Application Material

A Registered Professional Accountant shall <u>not</u> allow a conflict of interest to compromise professional or business judgment.

*Examples of circumstances that might create a conflict of interest***:**

a) Providing a transaction advisory service to a client seeking to acquire a client, where the firm has obtained confidential information that might be relevant to the transaction.
b) Providing advice to two clients at the same time, where the clients are competing to acquire the same company, and the advice might be relevant to the parties' competitive positions.
c) Providing services to a seller and a buyer in relation to the same transaction.
d) Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
e) Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
f) In relation to a license agreement, providing a non-assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
g) Advising a client to invest in a business in which, for example, the spouse of the Registered Professional Accountant has a financial interest.
h) Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
i) Advising a client on acquiring a business which the firm is also interested in acquiring.
j) Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict Identification

Before accepting a new client relationship, engagement, or business relationship*, **a Registered Professional Accountant shall take reasonable steps** to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles.* ***Such steps shall include identifying****:*

a) the nature of the relevant interests and relationships between the parties involved; and
b) the service and its implication for relevant parties.

An effective conflict identification process assists a Registered Professional Accountant when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the accountant being able to address threats created by the conflict of interest.

An effective process to identify actual or potential conflicts of interest will consider factors such as:

a) the nature of the professional services provided;
b) the size of the firm;
c) the size and nature of the client base; and
d) the structure of the firm. For example, the number and geographic location of offices.

Changes in Circumstances

A Registered Professional Accountant shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

The nature of services, interests and relationships might change during the engagement. This is particularly true when a Registered Professional Accountant is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the accountant initially might not be involved in a dispute.

Network Firms

If the firm is a member of a network, a Registered Professional Accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of a network firm.

Factors to consider when identifying interests and relationships involving a network firm include:

a) the nature of the professional services provided;
b) the clients served by the network; and
c) the geographic locations of all relevant parties.

Threats Created by Conflicts of Interest

In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

Factors that are relevant in evaluating the level of a threat created by a conflict of interest include *measures that prevent unauthorized disclosure of confidential information* when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict.

These measures include the following:

a) The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
b) Policies and procedures to limit access to client files.
c) Confidentiality agreements signed by personnel and partners of the firm.
d) Separation of confidential information physically and electronically.
e) Specific and dedicated training and communication.

Examples of actions that might be safeguards to address threats created by a conflict of interest:

a) Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
b) Having an appropriate reviewer (who is not involved in providing the service or otherwise affected by the conflict) review the work performed to assess whether the key judgments and conclusions are appropriate.

Disclosure and Consent

A Registered Professional Accountant shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

Factors to consider when determining whether specific disclosure and explicit consent are necessary include the following:

a) The circumstances creating the conflict of interest.
b) The parties that might be affected.
c) The nature of the issues that might arise.
d) The potential for the particular matter to develop in an unexpected manner.

Disclosure and consent might take different forms. For example:

a) General disclosure to clients of circumstances where, as is common commercial practice, the Registered Professional Accountant does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, an accountant might make general disclosure in the standard terms and conditions for the engagement.

b) Specific disclosure to affected clients of the circumstances of the particular conflict, in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances, and a comprehensive explanation of any planned safeguards and the risks involved.

c) Consent might be implied by clients' conduct in circumstances where the Registered Professional Accountant has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

It is generally necessary:

a) to disclose the nature of the conflict of interest, and how any threats created were addressed to clients affected by a conflict of interest; and
b) to obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.

If such disclosure or consent is not in writing, the professional accountant is encouraged to document:

a) the nature of the circumstances giving rise to the conflict of interest;
b) the safeguards applied to address the threats when applicable; and
c) the consent obtained.

When Explicit Consent is Refused

If a Registered Professional Accountant has determined that explicit consent is necessary in accordance with the Code and the client has refused to provide consent, the accountant shall either:

a) end or decline to perform professional services that would result in the conflict of interest; or
b) end relevant relationships, or dispose of relevant interests, to eliminate the threat or reduce it to an acceptable level.

Confidentiality

A Registered Professional Accountant shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

The Code sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

When making <u>specific disclosure</u> for the purpose of obtaining <u>explicit consent</u> would result in <u>a breach of confidentiality</u>, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

(a) the firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;

(b) specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and

(c) the firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

Documentation

In the circumstances set out in this section of the Code, the professional accountant shall document:

(a) the nature of the circumstances, including the role that the accountant is to undertake;

(b) the specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and

(c) why it is appropriate to accept or continue the engagement.

Section 3: <u>PROFESSIONAL APPOINTMENTS</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

Acceptance of a new client relationship, or changes in an existing engagement, might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

Threats to compliance with the principles of **integrity** or **professional behavior** might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.

Factors that are relevant in evaluating the level of such a threat include the following:

a) Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
b) The client's commitment to address the questionable issues, such as through improving corporate governance practices or internal controls.

<u>A self-interest threat</u> to compliance with the principle of **professional competence and due care** is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

Factors that are relevant in evaluating the level of such a threat include the following:

a) An appropriate understanding of:
- the nature of the client's business;
- the complexity of its operations;
- the requirements of the engagement; and
- the purpose, nature and scope of the work to be performed.

b) Knowledge of relevant industries or subject matter.
c) Experience with relevant regulatory or reporting requirements.
d) The existence of quality control policies and procedures designed to provide reasonable confidence that the engagements are accepted only when they can be performed competently.

Examples of actions that might be safeguards to address a self-interest threat:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Changes in a Professional Appointment

A Registered Professional Accountant shall determine whether there are any reasons for not accepting an engagement when the accountant:

(a) is asked by a potential client to replace another accountant;

(b) considers tendering for an engagement held by another accountant; or

(c) considers undertaking work that is complementary or additional to that of another accountant.

There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be **a self-interest threat** to compliance with the principle of **professional competence and due care** if a Registered Professional Accountant accepts the engagement before knowing all the relevant facts.

If a Registered Professional Accountant is asked to undertake work that is complementary or additional to the work of an existing or predecessor accountant, **a self-interest threat** to compliance with the principle of **professional competence and due care** might be created, for example, as a result of incomplete information.

A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor accountant will be requested. This contact gives the proposed accountant the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

Examples of actions that might be safeguards to address such *a self-interest threat*:

a) Asking the existing or predecessor accountant to provide any known information of which, in the existing or predecessor accountant's position, the proposed accountant needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.

b) Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

Communicating with the Existing or Predecessor Accountant

A proposed accountant will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor accountant. If unable to communicate with the existing or predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Accountant

Circumstances where a Registered Professional Accountant is (or might be) required to disclose confidential information, or when disclosure might be appropriate, are set out in the Code.

Client and Engagement Continuance

For a recurring client engagement, a Registered Professional Accountant shall periodically review whether to continue with the engagement.

Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the Registered Professional Accountant to decline the engagement. For example, **a self-interest threat** to compliance with the principle of **integrity** might be created by improper earnings management or balance sheet valuations.

Using the Work of an Expert

When a Registered Professional Accountant intends to use the work of an expert, the accountant shall determine whether the use is warranted.

Factors to consider when a Registered Professional Accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

Section 4: <u>FEES AND OTHER REMUNERATION</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

*The level and nature of fee and other remuneration arrangements might create **a self-interest threat** to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.*

Application Material

Level of Fees

The level of fees quoted might impact a Registered Professional Accountant's ability to perform professional services in accordance with professional standards.

A Registered Professional Accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a **self-interest threat** to compliance with the principle of **professional competence and due care** if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

Factors that are relevant in evaluating the level of such a threat include whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered by the quote.

Examples of actions that might be safeguards to address such a self-interest threat:

a) Adjusting the level of fees or the scope of the engagement.
b) Having an appropriate reviewer review the work performed.

Contingent Fees

Contingent fees are used for certain types of non-assurance services.

However, contingent fees might create threats to compliance with the fundamental principles, particularly **a self-interest threat** to compliance with the principle of **objectivity**, in certain circumstances.

Factors that are relevant in evaluating the level of such threats include the following:

a) The nature of the engagement.
b) The range of possible fee amounts.
c) The basis for determining the fee.
d) Quality control policies and procedures.
e) Whether an independent third party is to review the outcome or result of the transaction.

Examples of actions that might be safeguards to address such a self-interest threat:

a) Having an appropriate reviewer, who was not involved in performing the non-assurance service, review the work performed by the Registered Professional Accountant.
b) Obtaining an advance written agreement with the client on the basis of remuneration.

Referral Fees or Commissions

A self-interest threat to compliance with the principles of **objectivity** and **professional competence and due care** is created if a Registered Professional Accountant pays or receives a referral fee, or receives a commission relating to a client. Examples of such referral fees or commissions include the following:

a) A fee paid to another Registered Professional Accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.
b) A fee received for referring a continuing client to another Registered Professional Accountant, or other expert, where the existing accountant does not provide the specific professional service required by the client.
c) A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining an advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
- Disclosing to clients any referral fees or commission arrangements paid to, or received from, another Registered Professional Accountant or third party for recommending services or products might address a self-interest threat.

Purchase or Sale of a Firm

A Registered Professional Accountant 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 <u>not</u> referral fees or commissions for the purposes of this section.

Section 5: <u>INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

*Offering or accepting inducements might create **a self-interest, familiarity or intimidation threat** to compliance with the fundamental principles, particularly the principles of **integrity, objectivity and professional behavior.***

This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services that does <u>not</u> constitute non-compliance with laws and regulations. This section also requires a Registered Professional Accountant to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between Registered Professional Accountants and existing or prospective clients, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms. For example:

a) Gifts
b) Hospitality
c) Entertainment
d) Political or charitable donations
e) Appeals to friendship and loyalty
f) Employment or other commercial opportunities
g) Preferential treatment, rights or privileges

Inducements Prohibited by Laws and Regulations

In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The Registered Professional Accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements <u>with Intent</u> to Improperly Influence Behavior

A Registered Professional Accountant shall *not offer*, *or encourage others to offer*, any inducement that is made (or which the accountant considers a reasonable and informed third party would be likely to conclude is made) with the intent to improperly influence the behavior of the recipient or of another individual. A Registered Professional Accountant shall *not accept*, *or encourage others to accept*, any inducement that the accountant concludes is made (or considers a reasonable and informed third party would be likely to conclude is made) with the intent to improperly influence the behavior of the recipient or of another individual.

An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a Registered Professional Accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals.

A breach of the fundamental principle of **integrity** arises when a Registered Professional Accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.

The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include the following:

a) The nature, frequency, value and cumulative effect of the inducement.
b) Timing of when the inducement is offered relative to any action or decision that it might influence.
c) Whether the inducement is a customary or cultural practice in the circumstances For example, offering a gift on the occasion of a religious holiday or wedding.
d) Whether the inducement is an ancillary part of a professional service. For example, offering or accepting lunch in connection with a business meeting.
e) Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
f) The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
g) Whether the Registered Professional Accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.
h) The degree of transparency with which the inducement is offered.
i) Whether the inducement was required or requested by the recipient.
j) The known previous behavior or reputation of the offeror.

Consideration of Further Actions

If the Registered Professional Accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements are met.

Examples of actions that might be safeguards to address such threats include:

a) informing senior management of the firm, or those charged with governance of the client, regarding the offer; and
b) amending or terminating the business relationship with the client.

Inducements with No Intent to Improperly Influence Behavior

The requirements and application material set out in the conceptual framework apply when a Registered Professional Accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

Examples of circumstances where offering or accepting such an inducement might create threats, even if the Registered Professional Accountant has concluded there is no actual or perceived intent to improperly influence behavior:

a) **Self-interest threats**
   - A Registered Professional Accountant is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.

b) **Familiarity threats**
   - A Registered Professional Accountant regularly takes an existing or prospective client to sporting events.

c) **Intimidation threats**
   - A Registered Professional Accountant accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

*Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in this section of the Ethics Code on *p.62* for determining intent.*

Examples of actions that might eliminate threats created by offering or accepting such an inducement:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the client to another individual who the Registered Professional Accountant has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement:

a) Being transparent with senior management of the firm or of the client about offering or accepting an inducement.

b) Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance, or maintained by the client.

c) Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the Registered Professional Accountant with respect to the client from which the accountant accepted the inducement.

d) Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.

e) Reimbursing the cost of the inducement (such as hospitality) received.

f) As soon as possible, returning the inducement (such as a gift) after it was initially accepted.

Immediate or Close Family Members

A Registered Professional Accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by the offering of an inducement:

(a) *by* an immediate or close family member of the accountant *to* an existing or prospective client of the accountant; or

(b) *to* an immediate or close family member of the accountant *by* an existing or prospective client of the accountant.

Where the Registered Professional Accountant becomes aware of an inducement being offered to, or made by, an immediate or close family member, and concludes there is intent to improperly influence the behavior of the accountant or of an existing or prospective client of the accountant, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

The factors set out on *p.62* are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the Registered Professional Accountant or of the existing or prospective client.

Another factor that is relevant is the nature or closeness of the relationship between:

(a) the accountant and the immediate or close family member;

(b) the immediate or close family member and the existing or prospective client; and

(c) the accountant and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the accountant by a client for whom the accountant is providing a business valuation for a prospective sale might indicate such intent.

The application material in the Code is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the Registered Professional Accountant, or of the existing or prospective client, even if the immediate or close family member has followed the advice given pursuant to the Code.

Application of the Conceptual Framework

Where the Registered Professional Accountant becomes aware of an inducement offered in the circumstances addressed in the Code, threats to compliance with the fundamental principles might be created where:

(a) the immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to the Code; or

(b) the accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the existing or prospective client exists.

The application material in this section of the Code is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out at the bottom of *page 64.*

Other Considerations

If a Registered Professional Accountant encounters, or is made aware of, inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for or under the direction of the client, the requirements and application material in the next section, Responding to Non-Compliance with Laws and Regulations, apply.

If a firm, network firm or a team member is being offered gifts or hospitality from a client, the requirements and application material regarding gifts and hospitality apply.

If a firm or a team member is being offered gifts or hospitality from a client, the requirements and application material regarding gifts and hospitality apply.

Section 6: <u>RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS</u>

Registered Professional Accountants are required to comply with the fundamental principles and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats.

A self-interest or intimidation threat *to compliance with the principles of* ***integrity*** *and* ***professional behavior*** *is created when a Registered Professional Accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.*

A Registered Professional Accountant might encounter, or be made aware of, non-compliance or suspected non-compliance while providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's compiled financial information (non-assurance); and

(b) other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's compiled financial information (non-assurance), but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Registered Professional Accountant in Relation to Non-Compliance with Laws and Regulations

A *distinguishing mark of the accountancy profession* is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the **objectives of the Registered Professional Accountant are as follows:**

- To comply with **the principles of integrity and professional behavior**.
- By alerting management or, where appropriate, those charged with governance of the client, to seek to:
    i. enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    ii. deter the commission of the non-compliance where it has not yet occurred.
- To take such further action as appropriate in the public interest.

Requirements and Application Material

General

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

a) A client
b) Those charged with governance of a client.
c) Management of a client; or
d) Other individuals working for or under the direction of a client.

Examples of laws and regulations which this section addresses include those that deal with:

a) fraud, corruption and bribery;
b) money laundering, terrorist financing and proceeds of crime;
c) securities markets and trading;
d) banking and other financial products and services;
e) data protection;
f) tax and pension liabilities and payments;
g) environmental protection; and
h) public health and safety.

Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its compiled financial information (non-assurance). Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. *For the purposes of this section, an act that causes **substantial harm** is one that results in **serious adverse consequences** to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.*

In some jurisdictions, there are legal or regulatory provisions governing how Registered Professional Accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from, or go beyond, the provisions in this section.

When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

(a) any requirement to report the matter to an appropriate authority; and

(b) any prohibition on alerting the client.

A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

A Registered Professional Accountant who encounters, or is made aware of, *matters that are clearly inconsequential* is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

This section does not address:

(a) personal misconduct unrelated to the business activities of the client; and

(b) non-compliance by parties other than those specified in the Code. This includes, for example, circumstances where a Registered Professional Accountant has been engaged by a client to perform a due diligence assignment on a third-party entity, and the identified or suspected non-compliance has been committed by that third-party.

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

Responsibilities of Management and Those Charged with Governance

Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

a) the client;
b) an individual charged with governance of the entity;
c) a member of management; or
d) other individuals working for or under the direction of the client.

Responsibilities of All Registered Professional Accountants

Where a Registered Professional Accountant becomes aware of a matter to which this section applies, *the steps that the accountant takes to comply with this section shall be taken* ***on a timely basis****.* In taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

If a Registered Professional Accountant engaged to complete a compilation engagement becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance, and the circumstances in which it has occurred or might occur.

The Registered Professional Accountant might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement, or through information provided by other parties.

The Registered Professional Accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

If the Registered Professional Accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

The purpose of the discussion is to clarify the Registered Professional Accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management, or those charged with governance, to investigate the matter.

The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

a) the nature and circumstances of the matter;
b) the individuals actually or potentially involved;
c) the likelihood of collusion;
d) the potential consequences of the matter; and
e) whether that level of management is able to investigate the matter and take appropriate action.

The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

If the Registered Professional Accountant believes that management is involved in the non-compliance or suspected non-compliance, the accountant shall discuss the matter with those charged with governance.

Addressing the Matter

In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the Registered Professional Accountant shall advise them to take appropriate and timely actions (if they have not already done so) to:

a) rectify, remediate or mitigate the consequences of the non-compliance;
b) deter the commission of the non-compliance where it has not yet occurred; or
c) disclose the matter to an appropriate authority where required by law or regulation, or where considered necessary in the public interest.

The Registered Professional Accountant shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the Registered Professional Accountant might suggest appropriate sources of information or recommend that they obtain legal advice.

The Registered Professional Accountant shall comply with applicable:

a) laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and

b) requirements under non-assurance compilation standards, including those relating to:

- identifying and responding to non-compliance, including fraud;
- communicating with those charged with governance; and
- considering the implications of the non-compliance or suspected non-compliance for the non-assurance compilation's report.

Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

Where a Registered Professional Accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group, the accountant shall communicate the matter to the group engagement partner, unless prohibited from doing so by law or regulation.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in the Code applies regardless of whether the group engagement partner's firm or network is the same as, or different from, the Registered Professional Accountant's firm or network.

Where the group engagement partner becomes aware of non-compliance or suspected non-compliance, the group engagement partner shall consider whether the matter might be relevant to one or more components of the group.

This consideration shall be in addition to responding to the matter in accordance with the provisions of this section. If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in the Code, the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made.

The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as, or different from, the firms or networks of those performing work at the components.

Determining Whether Further Action Is Needed

The Registered Professional Accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

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

a) the response is timely;
b) the non-compliance or suspected non-compliance has been adequately investigated;
c) action has been (or is being) taken to rectify, remediate or mitigate the consequences of any non-compliance;
d) action has been (or is being) taken to deter the commission of any non-compliance where it has not yet occurred;
e) appropriate steps, such as additional controls or training, have been (or are being) taken to reduce the risk of re-occurrence; and
f) the non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

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

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

a) The legal and regulatory framework
b) The urgency of the situation
c) The pervasiveness of the matter throughout the client
d) Whether the Registered Professional Accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance.
e) Whether the non-compliance or suspected non-compliance is likely to recur.
f) Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

Examples of circumstances that might cause the Registered Professional Accountant to no longer have confidence in the integrity of management and, where applicable, those charged with governance, include situations where:

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

The Registered Professional Accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action.

In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

Further action that the Registered Professional Accountant might take includes:

a) ***disclosing*** the matter to an appropriate authority even when there is no legal or regulatory requirement to do so; and/or

b) ***withdrawing*** from the engagement and the professional relationship where permitted by law or regulation.

Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the Registered Professional Accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, withdrawal might be the only available course of action.

After One Registered Professional Accountant Withdraws from the Professional Relationship

Where the Registered Professional Accountant has withdrawn from the professional relationship pursuant to the Code, the accountant shall, on request by the *proposed accountant* pursuant to the Code, provide all relevant facts and other information concerning the identified or suspected noncompliance to the *proposed accountant*. The *predecessor accountant* shall do so, even in the circumstances addressed in the Code where the client fails or refuses to grant the *predecessor accountant* permission to discuss the client's affairs with the *proposed accountant*, unless prohibited by law or regulation.

The facts and other information to be provided are those that, in the *predecessor accountant's* opinion, the *proposed accountant* needs to be aware of before deciding whether to accept the appointment. Section 3: Professional Appointments addresses communications from *proposed accountants.*

If the *proposed accountant* is unable to communicate with the *predecessor accountant*, the *proposed accountant* shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties, or background investigations of management or those charged with governance.

As assessment of the matter might involve complex analysis and judgments, the Registered Professional Accountant might consider:

a) consulting internally;

b) obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action; and

c) consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public.

For example, the Registered Professional Accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

a) the entity is engaged in <u>bribery</u> (for example, of local or foreign government officials for purposes of securing large contracts);

b) the entity is regulated, and the matter is of such significance as to threaten its license to operate;

c) the entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities, or pose a systemic risk to the financial markets;

d) it is likely that the entity would sell products that are harmful to public health or safety; and/or

e) the entity is promoting a scheme to its clients to assist them in evading taxes.

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

a) Whether there is an *appropriate authority* that is able to receive the information and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. *For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting, or an environmental protection agency in the case of a breach of environmental laws and regulations.*

b) Whether there exists *robust and credible protection* from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under *whistle-blowing legislation or regulation.*

c) Whether there are *actual or potential threats to the physical safety* of the Registered Professional Accountant or other individuals.

If the Registered Professional Accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

Imminent Breach

In exceptional circumstances, the Registered Professional Accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute *an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public.* Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity*, the accountant shall exercise professional judgment and determine whether to disclose the matter* immediately *to an appropriate authority in order to prevent or mitigate the consequences of such an imminent breach. If disclosure is made, that disclosure is permitted pursuant to the Code.*

Documentation

In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the Registered Professional Accountant shall document:

a) how management and, where applicable, those charged with governance, have responded to the matter;
b) the courses of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test; and
c) how the accountant is satisfied that the accountant has fulfilled the responsibility set out in the Code.

This documentation is *in addition to* complying with the documentation requirements under applicable standards.

Discovery of Possible Non-Compliance with Laws and Regulations While Providing Professional Services

If a Registered Professional Accountant engaged to provide a professional service becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred, or might be about to occur.

The Registered Professional Accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

If the Registered Professional Accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management. If the accountant has access to those charged with governance, the accountant shall also discuss the matter with them where appropriate.

The purpose of the discussion is to clarify the Registered Professional Accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include the following:

a) The nature and circumstances of the matter
b) The individuals actually or potentially involved
c) The likelihood of collusion
d) The potential consequences of the matter
e) Whether the level of management is able to investigate the matter and take appropriate action.

Communicating the Matter

If the Registered Professional Accountant is performing a non-assurance compilation service, the accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the non-assurance compilation engagement partner.

If the Registered Professional Accountant is performing a non-assurance compilation service, the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the non-assurance compilation engagement partner.

If the Registered Professional Accountant is performing a non-assurance compilation service for a client, the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external accountant, if any.

Relevant Factors to Consider:

a) Whether doing so would be contrary to law or regulation.
b) Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
c) Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
d) Whether management or those charged with governance have already informed the entity's external non-assurance compilation about the matter.
e) The likely materiality of the matter to the client's compiled financial information (non-assurance) or, where the matter relates to a component of a group, its likely materiality to the group compiled financial information (non-assurance).

The Purpose of the Communication

In the circumstances addressed in the preceding subsection "**Communicating the Matter**," the purpose of the communication is to enable the engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.

Considering Whether Further Action Is Needed

The Registered Professional Accountant shall also consider whether further action is needed in the public interest.

Whether further action is needed, and the nature and extent of it, will depend on factors such as the following:

a) The legal and regulatory framework
b) The appropriateness and timeliness of the management and, where applicable, those charged with governance.
c) The urgency of the situation
d) The involvement of management or those charged with governance in the matter.
e) The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

Further action by the Registered Professional Accountant might include:

a) <u>disclosing</u> the matter to an appropriate authority even when there is no legal or regulatory requirement to do so; and/or

b) <u>withdrawing</u> from the engagement and the professional relationship where permitted by law or regulation.

In considering whether to disclose to an appropriate authority, relevant factors to take into account include the following:

a) Whether doing so would be contrary to law or regulation.

b) Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.

c) Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

If the Registered Professional Accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

Imminent Breach

In exceptional circumstances, the Registered Professional Accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause *substantial harm* to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter <u>immediately</u> to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant the Ethics Code.

Documentation

In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the Registered Professional Accountant is encouraged to document the following:

a) The matter

b) The results of discussion with management and, where applicable, those charged with governance and other parties.

c) How management and, where applicable, those charged with governance have responded to the matter.

d) The courses of action the accountant considered, the judgments made and the decisions that were taken.

e) How the accountant is satisfied that the accountant has fulfilled the responsibility set out in the Code regarding consideration of whether further action is needed in the public interest.

Section 7: PROVISION OF NON-ASSURANCE SERVICES

Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

Firms and network firms might provide a range of non-assurance services to their non-assurance compilation clients, consistent with their skills and expertise. Providing non-assurance services to non-assurance compilation clients might create threats to compliance with the fundamental principles and threats to independence.

This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to non-assurance compilation clients.

The subsections that follow *set out specific requirements and application material that are relevant when a firm or network firm provides certain non-assurance services to non-assurance compilation clients, and* ***the subsections also*** *indicate the types of threats that might be created as a result.*

Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to a non-assurance compilation client in certain circumstances, because the threats created cannot be eliminated, and safeguards are not capable of being applied to reduce the threats to an acceptable level.

Requirements and Application Material

Evaluating Threats

Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to a non-assurance compilation client include the following:

a) The nature, scope and purpose of the service
b) The degree of reliance that will be placed on the outcome of the service as part of the non-assurance compilation.
c) The legal and regulatory environment in which the service is provided.
d) The extent to which the outcome of the service will have a material effect on the compiled financial information (non-assurance).
e) The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the compiled financial information (non-assurance).
f) The level of expertise of the client’s management and employees with respect to the type of service provided.
g) The extent of the client’s involvement in determining significant matters of judgment.
h) Whether the client is a public interest entity. For example, providing a non-assurance service to a non-assurance compilation client that is a public interest entity might be perceived to result in a higher level of a threat.

A firm or network firm might provide multiple non-assurance services. In these circumstances, the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Addressing Threats

The Code includes examples of actions, including safeguards, that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level. Those examples are not exhaustive.

The Code includes a description of safeguards. In relation to providing non-assurance services to non-assurance compilation clients, ***safeguards*** *are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level.*

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment.

Examples of activities that would be considered a management responsibility include the following:

a) Setting policies and strategic direction.
b) Hiring or dismissing employees.
c) Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
d) Authorizing transactions.
e) Controlling or managing bank accounts or investments.
f) Deciding which recommendations of the firm, network firm or other third parties to implement.
g) Reporting to those charged with governance on behalf of management.
h) Taking responsibility for:
    - the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
    - designing, implementing, monitoring or maintaining internal control.

Providing advice and recommendations to assist the management of a non-assurance compilation client in discharging its responsibilities is not assuming a management responsibility.

To avoid assuming a management responsibility when providing services to a non-assurance compilation client, the firm or network firm shall be satisfied that the client's management makes all judgments and decisions that are the proper responsibility of management. ***This includes ensuring that the client's management*** *designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services.* **Such an individual, preferably within senior management, would understand:**

(a) the objectives, nature and results of the services; and
(b) the respective client and firm or network firm responsibilities.

Subsection 1: <u>ACCOUNTING AND BOOKKEEPING SERVICES</u>

*Providing accounting and bookkeeping services to a non-assurance compilation client may create **a self-review threat.***

In addition to the specific requirements and application material in this subsection, the requirements and application material in **Section 7:** **<u>Provision of Non-Assurance Services</u>** are relevant to applying the conceptual framework when providing a non-assurance compilation client with accounting and bookkeeping services.

Requirements and Application Material

All Non-Assurance Compilation Clients

Accounting and bookkeeping services comprise a broad range of services, including:

a) preparing accounting records and compiled financial information (non-assurance);
b) recording transactions; and
c) providing payroll services.

Management is responsible for the preparation and fair presentation of the compiled financial information (non-assurance) in accordance with the applicable financial reporting framework.
These responsibilities include the following:

a) Determining accounting policies and the accounting treatment in accordance with those policies.
b) Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
   - purchase orders;
   - payroll time records; and
   - customer orders.
c) Originating or changing journal entries.
d) Determining or approving the account classifications of transactions.

The non-assurance compilation process necessitates dialogue between the firm and the management of the non-assurance compilation client, which might involve:

a) applying accounting standards or policies and financial statement disclosure requirements;
b) assessing the appropriateness of financial and accounting control, and the methods used in determining the stated amounts of assets and liabilities; and
c) proposing adjusting journal entries.

These activities are considered to be a normal part of the non-assurance compilation process and *do not usually create threats*, as long as the client is responsible for making decisions in the preparation of accounting records and compiled financial information (non-assurance).

Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues, such as the conversion of existing compiled financial information (non-assurance) from one financial reporting framework to another.

Examples of issues with which the client may request technical assistance include:

a) complying with group accounting policies;

b) transitioning to a different financial reporting framework, such as International Financial Reporting Standards.

Such services do not usually create threats, provided neither the firm nor network firm assumes a management responsibility for the client.

Accounting and Bookkeeping Services that are Routine or Mechanical

Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment. Some examples of these services are as follows:

a) Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.

b) Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.

c) Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.

d) Posting transactions coded by the client to the general ledger.

e) Posting client-approved entries to the trial balance.

f) Preparing compiled financial information (non-assurance) based on information in the client-approved trial balance, and preparing related notes based on client-approved records.

Subsection 2: <u>ADMINISTRATIVE SERVICES</u>

Providing administrative services to a non-assurance compilation client *does not usually create a threat.*

In addition to the specific application material in this subsection, the requirements and application material in **Section 7: <u>Provision of Non-Assurance Services</u>** are relevant to applying the conceptual framework when providing administrative services.

Application Material

All Non-Assurance Compilation Clients

Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

Examples of administrative services include the following:

a) Word processing services
b) Preparing administrative or statutory forms for client approval.
c) Submitting such forms as instructed by the client.
d) Monitoring statutory filing dates, and advising a non-assurance compilation client of those dates.

Subsection 3: TAX SERVICES

*Providing tax services to a non-assurance compilation client might create **a self-review or advocacy threat.***

In addition to the specific requirements and application material in this subsection, the requirements and application material in **Section 7: Provision of Non-Assurance Services** are relevant to applying the conceptual framework when providing tax service to a non-assurance compilation client. This subsection includes requirements that prohibit firms and network firms from providing certain tax services to non-assurance compilation clients in some circumstances because the threats created cannot be eliminated or addressed by applying safeguards.

Requirements and Application Material

All Non-Assurance Compilation Clients

Tax services comprise a broad range of services, including activities such as:

a) tax return preparation;
b) tax calculations for the purpose of preparing the accounting entries;
c) tax planning and other tax advisory services;
d) tax services involving valuations; and
e) assistance in the resolution of tax disputes.

While this subsection divides each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often interrelated.

Factors that are relevant in evaluating the level of threats created by providing any tax service to a non-assurance compilation client include the following:

a) The particular characteristics of the engagement
b) The level of tax expertise of the client's employees
c) The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
d) The complexity of the relevant tax regime, and the degree of judgment necessary in applying it.

Service #1: Tax Return Preparation

All Non-Assurance Compilation Clients

Providing tax return preparation services *does not usually* create a threat, for the following reasons:

- Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice.
- Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

Tax return preparation services involve the following:

a) Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized prescribed forms) required to be submitted to the applicable tax authorities.

b) Advising on the tax return treatment of past transactions.

c) Responding on behalf of the non-assurance compilation client to the tax authorities' requests for additional information and analysis (for example, providing explanations of, and technical support for, the approach being taken).

Service #2: Tax Calculations for the Purpose of Preparing Accounting Entries

All Non-Assurance Compilation Clients

Preparing tax calculations of current and deferred tax liabilities (or assets) for a non-assurance compilation client, for the purpose of preparing accounting entries that will be subsequently non-assurance compilation by the firm, *creates* ***a self-review threat****.*

Non-Assurance Compilation Clients that are <u>Not</u> Public Interest Entities

In addition to the factors listed on *p.83*, a factor that is relevant in evaluating the level of the threat created when preparing such calculations for a non-assurance compilation client is whether the calculation might have a material effect on the compiled financial information (non-assurance).

Examples of actions that might be safeguards to address such a self-review threat when the non-assurance compilation client is not a public interest entity include the following:

a) Using professionals who are not non-assurance compilation team members to perform the service.

b) Having an appropriate reviewer, who was not involved in providing the service, review the non-assurance compilation work or service performed.

<u>Service #3: Tax Advisory and Tax Planning Services</u>

All Non-Assurance Compilation Clients

In addition to the factors listed on *p.83*, factors that are relevant in evaluating the level of **self-review or advocacy threats** created by providing tax planning and other tax advisory services to non-assurance compilation clients include the following:

a) The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the compiled financial information (non-assurance).

b) Whether the tax treatment is supported by a private ruling, or has otherwise been cleared by the tax authority before the preparation of the compiled financial information (non-assurance).

c) The extent to which the outcome of the tax advice will have a material effect on the compiled financial information (non-assurance).

d) Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the compiled financial information (non-assurance) and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

Providing tax advisory and tax planning services will <u>not</u> create a self-review threat if such services:

a) are clearly supported by a tax authority or other precedent;

b) are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority; or

c) have a basis in tax law that is likely to prevail;

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

A firm or a network firm shall consider the ethics of providing tax planning and other tax advisory services to a non-assurance compilation client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the compiled financial information (non-assurance) and:

(a) the non-assurance compilation team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) the outcome or consequences of the tax advice will have a material effect on the compiled financial information (non-assurance).

Examples of actions that might be <u>safeguards</u> to address self-review or advocacy threats include the following:

a) Using professionals who are not non-assurance compilation team members to perform the service might address **self-review or advocacy threats**.

b) Having an appropriate reviewer, who was not involved in providing the service, review the non-assurance compilation work or service performed, might address **a self-review threat**.

c) Obtaining pre-clearance from the tax authorities might address **self-review or advocacy threats**.

<u>Service #4: Tax Services Involving Valuations</u>

All Non-Assurance Compilation Clients

Providing tax valuation services to a non-assurance compilation client *might create* ***a self-review or advocacy threat***.

A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the compiled financial information (non-assurance). This would not usually create threats if the effect on the compiled financial information (non-assurance) is immaterial, or the valuation is subject to external review by a tax authority or similar regulatory authority.

However, <u>if</u> the valuation that is performed for tax purposes is <u>not</u> subject to an external review <u>and the effect is material</u> to the compiled financial information (non-assurance), <u>then</u> in addition to the factors listed on *p.83*, the following factors are relevant in <u>evaluating the level of</u> *self-review or advocacy threats* created by providing those services to a non-assurance compilation client:

a) The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.

b) The degree of subjectivity inherent in the valuation.

c) The reliability and extent of the underlying data.

Examples of actions that might be <u>safeguards</u> to address threats include the following:

a) Using professionals who are not non-assurance compilation team members to perform the service might address **self-review or advocacy threats**.

b) Having an appropriate reviewer (who was not involved in providing the service) review the non-assurance compilation work, or service performed, might address **a self-review threat**.

c) Obtaining pre-clearance from the tax authorities might address **self-review or advocacy threats**.

A firm or network firm might also perform a tax valuation to assist a non-assurance compilation client with its tax reporting obligations, or for tax planning purposes, where the result of the valuation will have a direct effect on the compiled financial information (non-assurance). In such situations, the requirements and application material relating to valuation services apply.

<u>Service #5: Assistance in the Resolution of Tax Disputes</u>

All Non-Assurance Compilation Clients

Providing assistance in the resolution of tax disputes to a non-assurance compilation client *might create **a self-review or advocacy threat***.

A tax dispute might reach a point when the tax authorities have notified a non-assurance compilation client that arguments on a particular issue have been rejected, and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court.

In addition to the four factors listed on ***p.83*****, factors that are relevant in <u>evaluating the level of</u> *self-review or advocacy threats* created by assisting a non-assurance compilation client in the resolution of tax disputes include the following:**

a) The role management plays in the resolution of the dispute.

b) The extent to which the outcome of the dispute will have a material effect on the compiled financial information (non-assurance).

c) Whether the advice that was provided is the subject of the tax dispute.

d) The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.

Examples of actions that might be <u>safeguards</u> to address threats include the following:

a) Using professionals who are not non-assurance compilation team members to perform the service *might address **self-review or advocacy threats***.

b) Having an appropriate reviewer (who was not involved in providing the service) review the non-assurance compilation work, or the service performed, *might address* ***a self-review threat***.

Resolution of Tax Matters Involving Acting as An Advocate

The Code does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court. For example:

a) Responding to specific requests for information.

b) Providing factual accounts or testimony about the work performed.

c) Assisting the client in analyzing the tax issues related to the matter.

What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

Subsection 4: <u>INTERNAL NON-ASSURANCE ACCOUNTING SERVICES</u>

Providing internal non-assurance compilation services to a non-assurance compilation client *might create **a self-review threat***.

In addition to the specific requirements and application material in this subsection, the requirements and application material in **Section 7: <u>Provision of Non-Assurance Services</u>** are relevant to applying the conceptual framework when providing an internal non-assurance compilation service to a non-assurance compilation client.

This subsection includes requirements that prohibit firms and network firms from providing certain internal non-assurance compilation services to non-assurance compilation clients in some circumstances, because the threats created cannot be eliminated or addressed by applying safeguards.

Requirements and Application Material

All Non-Assurance Compilation Clients

Internal non-assurance compilation services involve assisting the non-assurance compilation client in the performance of its internal non-assurance compilation activities.

Internal activities might include the following:

a) Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.

b) Examining financial and operating information by:
   - reviewing the means used to identify, measure, classify and report financial and operating information; and
   - inquiring specifically into individual items, including detailed testing of transactions, balances and procedures.

c) Reviewing the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.

d) Reviewing compliance with:
   - laws, regulations and other external requirements; and
   - management policies, directives and other internal requirements.

The scope and objectives of internal non-assurance compilation activities vary widely and depend on the size and structure of the entity, and the requirements of management and those charged with governance.

A firm or network firm is not allowed to assume a management responsibility when providing an internal non-assurance compilation service to a non-assurance compilation client. Therefore, the firm or network firm shall be satisfied that:

a. the client designates an appropriate and competent resource, preferably within senior management, to:
   i. be responsible at all times for internal non-assurance compilation activities; and
   ii. acknowledge responsibility for designing, implementing, monitoring and maintaining internal control.

b. the client's management or those charged with governance review, assess and approve the scope, risk and frequency of the internal non-assurance compilation services;

c. the client's management evaluates the adequacy of the internal non-assurance compilation services and the findings resulting from their performance;

d. the client's management evaluates and determines which recommendations resulting from internal non-assurance compilation services to implement, and manages the implementation process; and

e. the client's management reports to those charged with governance regarding the significant findings and recommendations resulting from the internal non-assurance compilation services.

Factors that are relevant in <u>identifying</u> *a self-review threat* created by providing internal non-assurance compilation services to a non-assurance compilation client, and <u>evaluating the level of</u> such a self-review threat, include the following:

a) The materiality of the related financial statement amounts
b) The risk of misstatement of the assertions related to those financial statement amounts.
c) The degree of reliance that the non-assurance compilation team will place on the work of the internal non-assurance compilation service, including during an *external* non-assurance compilation.

An example of an action that might be a <u>safeguard</u> to address such a self-review threat is using professionals who are not non-assurance compilation team members to perform the service.

Non-Assurance Compilation Clients that are Public Interest Entities

A firm or a network firm shall consider the ethics of providing internal non-assurance compilation services to a non-assurance compilation client that is a public interest entity, if the services relate to:

a) a significant part of the internal controls over financial reporting;
b) financial accounting systems that generate information that is, individually or in the aggregate, material to the client's accounting records or compiled financial information (non-assurance); or
c) amounts or disclosures that are, individually or in the aggregate, material to the compiled financial information (non-assurance).

Subsection 5: <u>INFORMATION TECHNOLOGY SYSTEMS SERVICES</u>

Providing information technology (IT) systems services to a non-assurance compilation client *might create **a self-review threat***.

In addition to the specific requirements and application material in this subsection, the requirements and application material in **Section 7:** **<u>Provision of Non-Assurance Services</u>** are relevant to applying the conceptual framework when providing an IT systems service to a non-assurance compilation client.

This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to non-assurance compilation clients in some circumstances, because the threats created cannot be eliminated or addressed by applying safeguards.

Requirements and Application Material

All Non-Assurance Compilation Clients

Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

(a) aggregate source data;

(b) form part of the internal control over financial reporting; or

(c) generate information that affects the accounting records or compiled financial information (non-assurance), including related disclosures.

However, the IT systems might also involve matters that are unrelated to the non-assurance compilation client's accounting records, or the internal control over financial reporting or compiled financial information (non-assurance).

Providing the following IT systems services to a non-assurance compilation client *does not usually create a threat,* as long as personnel of the firm or network firm <u>do not</u> assume a management responsibility. The IT systems services are as follows:

(a) Designing or implementing IT systems that are unrelated to internal control over financial reporting.

(b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or compiled financial information (non-assurance).

(c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant.

(d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

The Ethics Code prevents a firm or network firm from assuming a management responsibility when providing IT systems services to a non-assurance compilation client. Therefore, the firm or network firm shall be satisfied that:

- the client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- the client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- the client makes all management decisions with respect to the design and implementation process;
- the client evaluates the adequacy and results of the design and implementation of the system; and
- the client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Potential Threats Arising from the Provision of IT Systems Services

Providing IT systems services to a non-assurance compilation client *might create* ***a self-review threat****.*

Factors that are relevant in identifying a self-review threat created by providing an IT systems service to a non-assurance client, and evaluating the level of such a threat, include the following:

a) The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's accounting records or compiled financial information (non-assurance).

b) The degree of reliance that will be placed on the particular IT systems as part of the non-assurance compilation.

An example of an action that might be a <u>safeguard</u> to address such ***a self-review threat*** *is using professionals who are not non-assurance compilation team members to perform the service.*

Non-Assurance Compilation Clients that are Public Interest Entities

A firm or a network firm shall consider the ethics of providing IT systems services to a non-assurance compilation client that is a public interest entity if the services involve designing or implementing IT systems that:

(a) form a significant part of the internal control over financial reporting; or

(b) generate information that is significant to the client's accounting records or compiled financial information (non-assurance).

Subsection 6: LITIGATION SUPPORT SERVICES

Providing certain litigation support services to a non-assurance compilation client *might create* ***a self-review or advocacy threat.***

In addition to the specific requirements and application material in this subsection, the requirements and application material in **Section 7:** **Provision of Non-Assurance Services** are relevant to applying the conceptual framework when providing litigation support services to a non-assurance compilation client.

Requirements and Application Material

All Non-Assurance Compilation Clients

Litigation support services might include activities such as:

a) assisting with document management and retrieval;

b) acting as a witness, including an expert witness; and

c) calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.

Potential Threats Arising from the Provision of Litigation Support Services

Factors that are relevant in evaluating the level of *self-review or advocacy threats* created by providing litigation support services to a non-assurance compilation client include the following:

a) The legal and regulatory environment in which the service is provided. For example, whether an expert witness is chosen and appointed by a court.

b) The nature and characteristics of the service

c) The extent to which the outcome of the litigation support service will have a material effect on the compiled financial information (non-assurance).

An example of an action that might be a safeguard to address such **a self-review or advocacy threat** is using a professional who was not a non-assurance compilation team member to perform the service.

If a firm or a network firm provides a litigation support service to a non-assurance compilation client and the service involves estimating damages or other amounts that affect the compiled financial information (non-assurance), the requirements and application material set out in the Code apply.

Subsection 7: CORPORATE FINANCE SERVICES

Providing corporate finance services to a non-assurance compilation client *might create* ***a self-review or advocacy threat.***

In addition to the specific requirements and application material in this subsection, the requirements and application material in **Section 7: Provision of Non-Assurance Services** are relevant to applying the framework when providing a corporate finance service to a non-assurance compilation client.

This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to non-assurance compilation clients, because the threats created cannot be eliminated or addressed by applying safeguards.

Requirements and Application Material

All Non-Assurance Compilation Clients

Examples of corporate finance services that might create *a self-review or advocacy threat* include the following:

a) Assisting a non-assurance compilation client in developing corporate strategies.
b) Identifying possible targets for the non-assurance compilation client to acquire.
c) Advising on disposal transactions.
d) Assisting in finance-raising transactions.
e) Providing structuring advice.
f) Providing advice on the structuring of a corporate finance transaction, or on financing arrangements that will directly affect amounts that will be reported in the compiled financial information (non-assurance).

Potential Threats Arising from the Provision of Corporate Finance Services

Factors that are relevant in evaluating the level of threats created by providing corporate finance services to a non-assurance compilation client include the following:

a) The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the compiled financial information (non-assurance).

b) The extent to which:
   - the outcome of the corporate finance advice will directly affect amounts recorded in the compiled financial information (non-assurance); and
   - the amounts are material to the compiled financial information (non-assurance).

c) Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the compiled financial information (non-assurance), and whether there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Examples of actions that might be safeguards to address threats:

a) Using professionals who are not non-assurance compilation team members to perform the service might address **self-review or advocacy threats**.

b) Having an appropriate reviewer (who was not involved in providing the service) review the non-assurance compilation work, or service performed, might address **a self-review threat**.

Corporate Finance Services of Concern

A firm or a network firm shall consider the ethics of providing corporate finance *services* to a non-assurance compilation client that involves promoting, dealing in, or underwriting the non-assurance compilation client's shares.

A firm or a network firm shall consider the ethics of providing corporate finance *advice* to a non-assurance compilation client where**:**

a) the effectiveness of such advice depends on a particular accounting treatment or presentation in the compiled financial information (non-assurance);

b) the non-assurance compilation team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

c) the outcome or consequences of the corporate finance advice will have a material effect on the compiled financial information (non-assurance).

This marks the end of the sequence of Subsections connected to

Section 7: ***Provision of Non-Assurance Services***

Section 8: <u>REPORTS ON SPECIAL-PURPOSE COMPILED FINANCIAL INFORMATION</u>

Requirements and Application Material

When a firm intends to issue a report on a non-assurance compilation of special-purpose compiled financial information (non-assurance), the independence requirements of **the International Independence Standards** shall be eligible for the modifications that are permitted by this section, but only if:

a) the firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and

b) the intended users of the report understand the purpose and limitations of the report, and <u>explicitly</u> agree to the application of the modifications.

The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm’s engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

If the firm also issues a non-assurance compilation report that does not include a restriction on use and distribution for the same client, the firm shall apply **International Independence Standards**.

Employment with a Non-Assurance Compilation Client

When the firm performs a non-assurance compilation engagement, the firm shall evaluate and address any threats created by any employment relationships, as set out in the Ethics Code.

Section 9: FEES

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

The nature and level of fees or other types of remuneration *might create* ***a self-interest or intimidation threat*.** This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Fees — Relative Size

When the total fees generated from a non-assurance client by the firm expressing the conclusion in a non-assurance engagement represents a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client *create* ***a self-interest or intimidation threat.***

Factors that are relevant in evaluating the level of such threats include the following:

a) The operating structure of the firm
b) Whether the firm is well established or new.
c) The significance of the client qualitatively and/or quantitatively to the firm.

An example of an action that might be a safeguard to address such a self-interest or intimidation threat is *increasing the client base in the firm to reduce dependence on the non-assurance client.*

A self-interest or intimidation threat is also created when the fees generated by the firm from a non-assurance client represent a large proportion of the revenue from an individual *partner'*s clients.

Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

a) increasing the client base of the *partner* to reduce dependence on the non-assurance client; and
b) having an appropriate reviewer (who was not a non-assurance team member) review the work.

Contingent Fees

Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an *indirect* contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

Factors that are relevant in evaluating the level of a self-interest threat in a contingent fee arrangement include the following:

a) The range of possible fee amounts
b) Whether an appropriate authority determines the outcome on which the contingent fee depends.
c) Disclosure to intended users of the work performed by the firm and the basis of remuneration.
d) The nature of the service
e) The effect of the event or transaction on the subject matter information.

Examples of actions that might be safeguards to address such a self-interest threat:

a) Having an appropriate reviewer (who was not involved in performing the non-assurance service) review the relevant non-assurance work.
b) Obtaining an advance written agreement with the client on the basis of remuneration.

Section 10: <u>GIFTS AND HOSPITALITY</u>

Accepting gifts and hospitality from a non-assurance client *might create a **self-interest, familiarity or intimidation threat***. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

A firm or a non-assurance team member shall consider the ethics of accepting gifts and hospitality from a non-assurance client, unless the value is trivial and inconsequential.

Where a firm or non-assurance team member is offering or accepting an inducement to or from a non-assurance client, the requirements and application material set out in **Section 5: <u>Inducements, Including Gifts and Hospitality</u>** apply, and non-compliance with these requirements might create threats to independence.

The requirements set out in **Section 5: <u>Inducements, Including Gifts and Hospitality</u>** relating to offering or accepting inducements *do <u>not</u> allow* a firm or non-assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior, <u>even if</u> the value is trivial and inconsequential.

Section 11: ACTUAL OR THREATENED LITIGATION

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

When litigation with a non-assurance client occurs or appears likely, ***self-interest and intimidation threats*** *are created.* This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

The relationship between client management and the non-assurance team members must be characterized by *complete candor and full disclosure regarding all aspects of a client's operations.*

Adversarial positions might result from actual or threatened litigation between a non-assurance client and the firm or a non-assurance team member. Such adversarial positions *might* affect management's willingness to make complete disclosures and *create* ***self-interest and intimidation threats***.

Factors that are relevant in evaluating the level of such threats include:

a) the materiality of the litigation; and

b) whether the litigation relates to a prior non-assurance engagement.

If the litigation involves a non-assurance team member, an example of *an action that might eliminate such* ***self-interest and intimidation threats*** *is removing that individual from the non-assurance team.*

An example of *an action that might be a safeguard to address such* ***self-interest and intimidation threats*** *is having an appropriate reviewer review the work performed.*

Section 12: FINANCIAL INTERESTS

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

Holding a financial interest in a non-assurance client *might create* ***a self-interest threat****.* This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

A financial interest might be held *directly or indirectly* through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be *direct*. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be *indirect*.

This section contains references to the "materiality" of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Factors that are relevant in evaluating the level of *a self-interest threat* created by holding a financial interest in a non-assurance client include:

a) the role of the individual holding the financial interest;
b) whether the financial interest is direct or indirect; and
c) the materiality of the financial interest.

Financial Interests in an Entity Controlling a Non-Assurance Client

When an entity has a controlling interest in the non-assurance client and the client is material to the entity, neither the firm, nor a non-assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

The Code shall also apply to a financial interest in a non-assurance client held in a trust for which the firm or individual acts as trustee, unless:

(a) none of the following is a beneficiary of the trust: the trustee, the non-assurance team member or any of that individual's immediate family, or the firm;

(b) the interest in the non-assurance client held by the trust is not material to the trust;

(c) the trust is not able to exercise significant influence over the non-assurance client; and

(d) none of the following can significantly influence any investment decision involving a financial interest in the non-assurance client: the trustee, the non-assurance team member or any of that individual's immediate family, or the firm.

Financial Interests Received Unintentionally

If a firm, a non-assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in a non-assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances, and the interest would not otherwise be permitted to be held under this section, then:

(a) if the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) if the interest is received by a non-assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

Financial Interests – Other Circumstances

Close Family

A self-interest threat *might be created* if a non-assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the non-assurance client.

Factors that are relevant <u>in evaluating the level of</u> such a threat include:

a) the nature of the relationship between the non-assurance team member and the close family member;
b) whether the financial interest is direct or indirect; and
c) the materiality of the financial interest to the close family member.

Examples of *actions that might <u>eliminate</u> such a self-interest threat* include:

a) having the close family member dispose, as soon as practicable, of all of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material; and
b) removing the individual from the non-assurance team.

An example of *an action that might be <u>a safeguard</u> to address such a self-interest threat* *is having an appropriate reviewer review the work of the non-assurance team member.*

Other Individuals

A self-interest threat might be created if a non-assurance team member knows that a financial interest is held in the non-assurance client by individuals such as:

a) partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by the Code, or their immediate family members; and
b) individuals with a close personal relationship with a non-assurance team member.

An example of an action that might eliminate such a self-interest threat is *removing the non-assurance team member with the personal relationship from the non-assurance team.*

Examples of actions that might be safeguards to address such a self-interest threat include:

a) excluding the non-assurance team member from any significant decision-making concerning the non-assurance engagement; and
b) having an appropriate reviewer review the work of the non-assurance team member.

Section 13: LOANS AND GUARANTEES

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

A loan, or a guarantee of a loan, with a non-assurance client *might create* ***a self-interest threat***. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with a Non-Assurance Client

A firm, a non-assurance team member, or any of that individual's immediate family shall consider the ethics of accepting a loan, or a guarantee of a loan, from a non-assurance client that is a bank or a similar institution, unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Examples of loans include: *mortgages, bank overdrafts, car loans and credit card balances*.

Even if a firm receives a loan from a non-assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan *might create* ***a self-interest threat*** if it is material to the non-assurance client or firm receiving the loan.

An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not a non-assurance team member, from a network firm that is not a beneficiary of the loan.

Deposit or Brokerage Accounts

A firm, a non-assurance team member, or any of that individual's immediate family shall consider the ethics of having deposits or a brokerage account with a non-assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with a Non-assurance Client that is Not a Bank or Similar Institution

A firm or a non-assurance team member, or any of that individual's immediate family, shall consider the ethics of accepting a loan from, or having a borrowing guaranteed by, a non-assurance client that is not a bank or similar institution, unless the loan or guarantee is *immaterial to both*:

(a) the firm, or the individual receiving the loan or guarantee, as applicable; *and*

(b) the client.

Section 14: BUSINESS RELATIONSHIPS

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

A close business relationship *with a non-assurance client or its management might create* ***a self-interest or intimidation threat****.* This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Examples of a close business relationship arising from a commercial relationship or common financial interest include the following:

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

b) Arrangements to combine one or more services or products of the firm with one or more services or products of the client, and to market the package with reference to both parties.

c) Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Firm, Non-Assurance Team Member or Immediate Family Business Relationships

A firm or a non-assurance team member shall not have a close business relationship with a non-assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the non-assurance team member, as applicable.

A self-interest or intimidation threat *might be created* if there is a close business relationship between the non-assurance client or its management and the immediate family of a non-assurance team member.

Buying Goods or Services

The purchase of goods and services from a non-assurance client by a firm, a non-assurance team member, or any of that individual's immediate family *does not usually* create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create **a self-interest threat**.

Examples of actions that might eliminate such a self-interest threat:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the non-assurance team.

Section 15: FAMILY AND PERSONAL RELATIONSHIPS

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

Family or personal relationships with client personnel might create ***a self-interest, familiarity or intimidation threat.*** This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

A self-interest, familiarity or intimidation threat *might* be created by family and personal relationships between a non-assurance team member and a director or officer or, depending on their role, certain employees of the non-assurance client.

Factors that are relevant in evaluating the level of such threats include:

a) the individual's responsibilities on the non-assurance team; and
b) the role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of a Non-Assurance Team Member

A self-interest, familiarity or intimidation threat is created when an immediate family member of a non-assurance team member is an employee in a position to exert significant influence over the subject matter of the engagement.

Factors that are relevant in evaluating the level of such threats include:

a) the position held by the immediate family member; and
b) the role of the non-assurance team member.

An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is *removing the individual from the non-assurance team*.

An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is *structuring the responsibilities of the non-assurance team so that the non-assurance team member does not deal with matters that are within the responsibility of the immediate family member.*

An individual shall consider the ethics of participating as a non-assurance team member when any of that individual's immediate family:

(a) is a director or officer of the non-assurance client;
(b) is an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement; or
(c) was in such a position during any period covered by the engagement or the subject matter information.

Close Family of a Non-Assurance Team Member

A self-interest, familiarity or intimidation threat is created when a close family member of a non-assurance team member is:

(a) a director or officer of the non-assurance client; or

(b) an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement.

Factors that are relevant in evaluating the level of such threats include:

a) the nature of the relationship between the non-assurance team member and the close family member;
b) the position held by the close family member; and
c) the role of the non-assurance team member.

An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is *removing the individual from the non-assurance team.*

An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is *structuring the responsibilities of the non-assurance team so that the non-assurance team member does not deal with matters that are within the responsibility of the close family member.*

Other Close Relationships of a Non-Assurance Team Member

A non-assurance team member shall consult in accordance with firm policies and procedures if the non-assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) a director or officer of the non-assurance client; or

(b) an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement.

Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

a) the nature of the relationship between the individual and the non-assurance team member;
b) the position the individual holds with the client; and
c) the role of the non-assurance team member.

An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is *removing the individual from the non-assurance team.*

An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is *structuring the responsibilities of the non-assurance team so that the non-assurance team member does not deal with matters that are within the responsibility of the individual with whom the non-assurance team member has a close relationship.*

Relationships of Partners and Employees of the Firm

A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

(a) a partner or employee of the firm who is not a non-assurance team member; and

(b) a director or officer of the non-assurance client, or an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement.

Factors that are relevant in evaluating the level of such threats include the following:

a) The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.

b) The degree of interaction of the partner or employee of the firm with the non-assurance team.

c) The position of the partner or employee within the firm.

d) The role of the individual within the client.

Examples of actions that might be <u>safeguards</u> to address such self-interest, familiarity or intimidation threats include:

a) structuring the partner's or employee's responsibilities to reduce any potential influence over the non-assurance engagement; and

b) having an appropriate reviewer review the relevant non-assurance work performed.

Section 16: <u>RECENT SERVICE WITH A NON-ASSURANCE CLIENT</u>

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

If a non-assurance team member has recently served as a director or officer or employee of the non-assurance client, ***a self-interest, self-review or familiarity threat*** *might be created.* This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During the Period Covered by the Non-Assurance Report

The non-assurance team shall consider the ethics of including an individual who, during the period covered by the non-assurance report:

(a) had served as a director or officer of the non-assurance client; or

(b) was an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement.

Service Prior to the Period Covered by the Non-Assurance Report

A self-interest, self-review or familiarity threat might be created if, before the period covered by the non-assurance report, a non-assurance team member:

(a) had served as a director or officer of the non-assurance client; or

(b) was an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current non-assurance engagement.

Factors that are relevant in evaluating the level of such threats include:

a) the position the individual held with the client;
b) *the length of time since* the individual left the client; and
c) the role of the non-assurance team member.

An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is *having an appropriate reviewer review the work performed by the non-assurance team member.*

Section 17: <u>SERVING AS A DIRECTOR OR OFFICER OF A NON-ASSURANCE CLIENT</u>

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

*Serving as a director or officer of a non-assurance client <u>may</u> create **self-review and self-interest threats**.* This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

A partner or employee of the firm shall consider the ethics of serving as a director or officer of a non-assurance client of the firm.

Service as Company Secretary

A partner or employee of the firm shall consider the ethics of serving as Company Secretary for a non-assurance client of the firm. Some factors include:

(a) whether this practice is specifically permitted under local law, professional rules or practice;

(b) whether management makes all decisions; and

(c) whether the duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

The position of Company Secretary has different implications in different jurisdictions. Duties might 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. *Usually, this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for a non-assurance client.*

Section 18: EMPLOYMENT WITH A NON-ASSURANCE CLIENT

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

Employment relationships with a non-assurance client might create ***a self-interest, familiarity or intimidation threat*****.** This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

A familiarity or intimidation threat *might be created if any of the following individuals have been a non-assurance team member or partner of the firm:*

a) A director or officer of the non-assurance client

b) An employee who is in a position to exert significant influence over the subject matter information of the non-assurance engagement.

Former Partner or Non-Assurance Team Member Considerations

If a former partner has joined a non-assurance client of the firm, or a former non-assurance team member has joined the non-assurance client as:

a) a director or officer; or

b) an employee in a position to exert significant influence over the subject matter information of the non-assurance engagement,

then the individual shall consider whether to participate in the firm's business or professional activities.

Even if one of the individuals described in the Code has joined the non-assurance client in such a position and *does not continue* to participate in the firm's business or professional activities, ***a familiarity or intimidation threat*** *might still be created.*

A familiarity or intimidation threat *might also be created* if a former partner of the firm has joined an entity in one of the positions described in the Code and the entity subsequently becomes a non-assurance client of the firm.

Factors that are relevant in evaluating the level of such threats include the following:

a) The position the individual has taken at the client.
b) Any involvement the individual will have with the non-assurance team.
c) The length of time since the individual was a non-assurance team member or partner of the firm.
d) The former position of the individual within the non-assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

Examples of actions that might be safeguards to address such a familiarity or intimidation threat include the following:

a) Making arrangements such that the individual is not entitled to any benefits or payments from the firm unless made in accordance with fixed pre-determined arrangements.

b) Making arrangements such that any amount owed to the individual is not material to the firm.

c) Modifying the plan for the non-assurance engagement.

d) Assigning to the non-assurance team individuals who have sufficient experience relative to the individual who has joined the client.

e) Having an appropriate reviewer review the work of the former non-assurance team member.

Non-Assurance Team Members Entering Employment Negotiations with a Client

A firm shall have policies and procedures that require non-assurance team members to notify the firm when entering employment negotiations with a non-assurance client.

A self-interest threat is created when a non-assurance team member participates in the non-assurance engagement while knowing that the non-assurance team member will, or might, join the client sometime in the future.

An example of an action that might eliminate such **a self-interest threat** is *removing the individual from the non-assurance engagement.*

An example of an action that might be a safeguard to address such **a self-interest threat** is *having an appropriate reviewer review any significant judgments made by that non-assurance team member while on the team.*

Section 19: LONG ASSOCIATION OF PERSONNEL WITH A NON-ASSURANCE CLIENT

Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

*When an individual is involved in a non-assurance engagement of a recurring nature over a long period of time, **familiarity and self-interest threats** might be created.* This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

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

(a) the non-assurance client;

(b) the non-assurance client's senior management; or

(c) the subject matter and subject matter information of the non-assurance engagement.

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

Factors that are relevant to evaluating the level of such familiarity or self-interest threats include the following:

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

The combination of two or more factors might increase or reduce the level of the threats. *For example,* **familiarity threats** created over time by the increasingly close relationship between an individual and the non-assurance client would be reduced by the departure of the individual who is the responsible party.

An example of an action that might <u>eliminate</u> **the familiarity and self-interest threats** in relation to a specific engagement *would be rotating the individual off the non-assurance team.*

Examples of actions that might be <u>safeguards</u> to address such familiarity or self-interest threats:

a) Changing the role of the individual on the non-assurance team or the nature and extent of the tasks the individual performs.
b) Having an appropriate reviewer, who was not a non-assurance team member, review the work of the individual.
c) Performing regular independent internal or external quality reviews of the engagement.

If a firm decides that the level of the threats created can only be addressed by rotating the individual off the non-assurance team, the firm shall consider or determine an appropriate period during which the individual should <u>not</u>:

(a) be a member of the engagement team for the non-assurance engagement;

(b) provide quality control for the non-assurance engagement; or

(c) exert direct influence on the outcome of the non-assurance engagement.

*The period shall be of <u>sufficient duration</u> to allow **the familiarity and self-interest threats** to be addressed.*

Section 20: PROVISION OF OTHER RELATED SERVICES TO CLIENTS

Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in the Ethics Code to identify, evaluate and address threats to independence.

Firms might provide a range of non-assurance services to their non-assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to non-assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Before a firm accepts an engagement to provide a non-assurance service to a non-assurance client, the firm shall determine whether providing such a service might create a threat to independence.

The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to a non-assurance client.

New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to a non-assurance client. *As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to a non-assurance client*.

Evaluating Threats

Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to a non-assurance client include the following:

a) The nature, scope and purpose of the service

b) The degree of reliance that will be placed on the outcome of the service as part of the non-assurance engagement.

c) The legal and regulatory environment in which the service is provided.

d) Whether the outcome of the service will affect matters reflected in the subject matter or subject matter information of the non-assurance engagement, and, if so:
   - the extent to which the outcome of the service will have a material or significant effect on the subject matter of the non-assurance engagement; and
   - the extent of the non-assurance client's involvement in determining significant matters of judgment.

e) The level of expertise of the client's management and employees with respect to the type of service provided.

Materiality in Relation to a Non-Assurance Client's Information

Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to a non-assurance client. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-Assurance Services Provided to the Same Non-Assurance Client

A firm might provide multiple non-assurance services to a non-assurance client. In these circumstances, the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Addressing Threats

The Code includes a description of safeguards. In relation to providing non-assurance services to non-assurance clients, *safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level.* In some situations, when a threat is created by providing a service to a non-assurance client, safeguards might not be available. *In such situations, the application of the conceptual framework set out in the Ethics Code requires the firm to decline or end the non-assurance service or the non-assurance engagement.*

Assuming Management Responsibilities

Generally, the client's own management should take responsibility for the decisions that are involved in the management of its own company.

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

Providing a non-assurance service to a non-assurance client creates **self-review and self-interest threats** if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the subject matter or subject matter information of a non-assurance engagement provided by the firm, assuming a management responsibility also creates **a familiarity threat**, and might create **an advocacy threat** because the firm becomes too closely aligned with the views and interests of management.

Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment.

Examples of activities that would be considered a management responsibility include the following:

a) Setting policies and strategic direction.
b) Hiring or dismissing employees.
c) Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.

d) Authorizing transactions.
e) Controlling or managing bank accounts or investments.
f) Deciding which recommendations of the firm or other third parties to implement.
g) Reporting to those charged with governance on behalf of management.
h) Taking responsibility for designing, implementing, monitoring, and maintaining internal control.

Providing advice and recommendations to assist the management of a non-assurance client in discharging its responsibilities is <u>not</u> assuming a management responsibility.

PART 4 - GLOSSARY

In the Ethics Code, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

Acceptable level: A level at which a Registered Professional Accountant, using the reasonable and informed third party test, would likely conclude that the accountant complies with the fundamental principles.

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

Appropriate reviewer: An appropriate reviewer is a professional with the necessary reviewer knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a Registered Professional Accountant.

Non-assurance client: A client that is using services from the Registered Professional Accountant other than Audit or Review, which are assurance services.

Non-assurance engagement: One in which a Registered Professional Accountant performs a compilation service for a client, within which the accountant expresses no opinion nor reaches a conclusion. <u>Not</u> a review or audit engagement.

Non-assurance team: All members of the engagement team for the non-assurance engagement.

Close family: A parent, child or sibling who is not an immediate family member.

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

Engagement team: All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform non-assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

Existing accountant: A Registered Professional Accountant who is currently holding a non-assurance compilation engagement, which can involve carrying out accounting, tax, consulting or similar professional services for a client.

External expert: An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or non-assurance compilation, whose work in that field is used to assist the Registered Professional Accountant in obtaining sufficient appropriate evidence.

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 report: A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of compiled financial information (non-assurance), but it can also refer to a single financial statement, such as a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

Firm:

(a) A sole practitioner, partnership or corporation of Registered Professional Accountants;

(b) an entity that controls such parties, through ownership, management or other means; and

(c) an entity controlled by such parties, through ownership, management or other means.

Fundamental principles: Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behavior.

Immediate family: A spouse (or equivalent) or dependent.

Independence: Independence comprises:

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

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a non-assurance compilation's, or non-assurance team member's integrity, objectivity or professional skepticism has been compromised.

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

Inducement: An object, situation, or action that is used to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.

Inducements can range from minor acts of hospitality between business colleagues (for Registered Professional Accountants in business), or between Registered Professional Accountants and existing or prospective clients (for Registered Professional Accountants in professional practice), to acts that result in non-compliance with laws and regulations. An inducement can take many different forms. For example:

• Gifts

• Hospitality

• Entertainment

• Political or charitable donations

• Appeals to friendship and loyalty

• Employment or other commercial opportunities

• Preferential treatment, rights or privileges

Responsible party: That is the person (or persons) responsible for the subject matter.

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Quote from the President

"The RPA Code of Ethics and Professional Behavior Standards of Practice sets out the professional knowledge, skills, values, and expectations applicable to all RPAs and APAs regardless of role and the setting in which they may practise. As self-regulated professionals, RPAs & APAs are required to always act with integrity within their workplace and the community they live and practice. I am pleased to see the hard work and dedication of the RPA Ethics Committee for putting together a comprehensive RPA Code of Ethics book."

Zubair Choudhry, President & CEO

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