

ca THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF ZIMBABWE
Members' Handbook
2008/2009



1918



Members' Handbook

2008/2009



FOREWORD

We are delighted to publish the 1st edition of the Institute's members' handbook. This handbook is produced by the Institute of Chartered Accountants of Zimbabwe (ICAZ) and is intended to be a handy reference book for all members, whether in business or in practice.

The handbook contains relevant sections from the Chartered Accountants Act (Chapter 27.02) and the By-Laws to certain publications and pronouncements from the standard setting bodies of the International Federation of Accountants (IFAC), of which the Institute is a member. ICAZ is a founder member of the Eastern, Central and Southern Africa Federation of Accountants (ECSAFA) and is represented by its CEO and President in the ECSAFA Council. The Institute is also a member of the Public Accountants and Auditors Board (PAAB) in Zimbabwe. The Institute has reciprocal Agreements with other Accountancy bodies for the benefit of members outside Zimbabwe who may wish to obtain membership of Accountancy bodies in their countries of work (See Appendix 3).

We hope that you will find this book to be a valuable reference item and we do welcome your views and comments aimed at improving the content of the handbook in future.

Information contained in this handbook is current as at 31st December 2008 unless otherwise stated.

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FORMATION

The Institute of Chartered Accountants of Zimbabwe was incorporated in 1918 under the Chartered Accountants Act, Chapter 27:02. The Act below was last amended in August 2004.

CHARTERED ACCOUNTANTS ACT [Chapter 27:02]

Ords 14/1917, 4/1918; Acts 14/1928, 37/1938 (s. 3), 28/1964, 47/1969, 39/1973 (s. 52), 13/1995, 22/2001; R.G.N.s 386/1964, 124/1974, 362/1980.

Arrangement of Sections

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20. By-laws.
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AN ACT to incorporate the Institute of Chartered Accountants of Zimbabwe; to provide for the registration of chartered accountants in Zimbabwe; and to provide for matters connected with or incidental to the foregoing.

[Date of commencement: 11th January, 1918.]

1. Short title

This Act may be cited as the Chartered Accountants Act [Chapter 27:02].

2. Interpretation

In this Act—

“By-laws” means by-laws made in terms of section twenty;

“Chartered Accountant” means a person registered as such in terms of section eight;

“Council” means the council of the Institute;

“Institute” means the Institute of Chartered Accountants of Zimbabwe incorporated in terms of section three;

“Minister” means the Minister of Justice, Legal and Parliamentary Affairs or any other Minister to whom the President may, from time to time, assign the administration of this Act;

“Register” means the Register of Chartered Accountants referred to in section seven;

“Student accountant” means a person training under a chartered accountant or a firm of chartered accountants to qualify as a chartered accountant.

3. Incorporation of the Institute of Chartered Accountants of Zimbabwe

The persons registered as hereinafter provided are hereby constituted and incorporated into one body corporate by the name of “The Institute of Chartered Accountants of Zimbabwe”, with perpetual succession and the right to use a common seal and to sue and be sued in its corporate capacity, and the said body corporate shall be capable in law of taking and holding any real or personal property for the benefit and purposes of the Institute, with power to dispose thereof but so that the Institute shall apply its profits or other income in promoting the objects of the Institute and shall not at any time pay any dividends to its members.

4. Objects of Institute

The objects of the Institute shall be—

- (a) to establish and maintain the Register;
- (b) to conduct examinations or to take such other steps as may be necessary to ascertain in terms of this Act whether persons are qualified to be admitted to the Register;
- (c) to take such legal proceedings or make such application to courts of law as may be necessary to recover any moneys due to the Institute by any person or member, whether the same is in respect of arrear subscriptions or otherwise;
- (d) to encourage the study of accountancy by the members of the Institute, by student accountants, and by other students, and for that purpose to promote information and education on accountancy matters by lectures, classes, discussion, books, correspondence, examinations and otherwise, and to make donations, and to give certificates, bursaries, scholarships and rewards upon such terms and conditions as may from time to time be prescribed by the Council;
- (e) to form, support and maintain a library or libraries and reading rooms for the use of the members of the Institute and students;
- (f) to acquire any rights or privileges which the Institute may regard as necessary or convenient for the purpose thereof, and to make donations for promoting the interests of the chartered accountants’ profession;
- (g) to establish and support or aid in the establishing and supporting of associations, funds, trusts and conveniences calculated to benefit the members of the Institute, or their dependants or connections, and from any special funds accumulated thereby to grant pensions and allowances to any member of the Institute or his or her dependants or connections;
- (h) to purchase, take on lease or in exchange, hire or otherwise acquire any movable or immovable property, and to erect any buildings required for the purposes of the Institute;
- (i) to invest moneys of the Institute not immediately required upon such securities as may from time to time be determined by the Council, and also to vary such investments;
- (j) to raise or borrow money in such a manner as the Institute may think fit, and in particular by mortgage bonds or by the issue of debentures secured by mortgage bonds upon all or any of the property of the Institute, both present and future;
- (k) to sell, improve, lease, mortgage, dispose of or otherwise deal with all or any part of the property of the Institute;

- (l) to represent the views of the chartered accountants' profession; to preserve and maintain its integrity and status; to take any steps which may be thought necessary to suppress dishonourable conduct and practices by the members of the chartered accountants' profession, and for this purpose to hold inquiries into the conduct of members; to provide for the amicable settlement or adjustment of professional disputes; and to consider and deal with all matters affecting the professional interests of members of the Institute;
- (m) to promote or assist in promoting legislation which may be considered to be of advantage to the Institute and to oppose any legislation which may be considered prejudicially to affect the interest or status of the Institute or its members;
- (n) to do all such other things as are incidental or conducive to the attainment of the above objects.

5. General meetings

- (1) There shall be held once in each year, within six months from the 31st March, a general meeting of the Institute, at which every member of the Institute who is not in arrear with any subscription or sum payable by him or her to the Institute shall be entitled to be present and to vote. The quorum for such general meeting shall be fixed by the by-laws.
- (2) Any question to be decided at such meeting shall be decided by a majority of the members present in person or by proxy.
- (3) The Council shall prepare as at the 31st December in each year a balance sheet and a revenue and expenditure account of the Institute, and shall submit such accounts duly audited to the Institute at such general meeting for discussion and approval. The officers of the Institute shall be elected annually at this meeting.
- (4) It shall be lawful for any member or members of the Institute at such meeting to move any resolution which is not inconsistent with the purposes and provisions of this Act:
Provided that no member or members shall have the right to introduce to such meeting or submit for discussion by such meeting any act done by the council in pursuance of the power conferred by paragraph (c) of section six or sections thirteen to eighteen.

6. Powers of Council

The Council shall have power to do each and all of the following acts—

- (a) to manage and superintend the affairs of the Institute;
- (b) to appoint and remove any officers and employees of the Institute, and to determine the duty, salary and remuneration of the same;
- (c) to determine the qualifications for registration in terms of this Act;
- (d) to determine syllabuses for and to hold, either by itself or through examiners, examinations to qualify student accountants for registration in terms of this Act;
- (e) to grant certificates to persons who have passed the examinations referred to in paragraph (d);
- (f) to consider and grant or refuse applications from persons seeking exemption from any examination or any part thereof;

- (g) to appoint committees for such general or specific purposes as it considers necessary or desirable and, subject to any conditions it may fix, to delegate to any such committee any of its functions under this Act;
- (h) generally to exercise all the powers of the Institute except such powers as expressly reserved by this Act to the Institute in general meeting.

7. Register

- (1) Subject to this Act, the Council shall continue to keep and maintain the register of members which it kept prior to the 31st December, 1995.
- (2) The Register shall be known as the Register of Chartered Accountants.
- (3) The Register shall be kept at the Institute's offices and shall be open to inspection during office hours by any member of the public upon payment of the fee, if any, prescribed in by-laws.
- (4) The Council shall—
 - (a) cause to be entered in the Register—
 - (i) the name of every person entitled to be registered in terms of this Act;
 - (ii) such other particulars relating to registered persons as may be prescribed in by- laws;
 - (b) cause such alterations to be made in the Register as may from time to time be necessary by reason of any change in the name or other particulars of a registered person;
 - (c) cause to be deleted from the Register the name of any registered person on the death of that person or when required to do so by or in terms of this Act.
- (5) The Council shall issue to every person whose name is entered in the Register a certificate in the form prescribed in by-laws specifying that the person concerned is registered.

8. Registration of chartered accountants

- (1) Any person who wishes to be registered as a chartered accountant shall apply, in writing, to the Council and shall submit such evidence of his or her qualifications for registration and of his or her identity and his or her good character and reputation as the Council may require.
- (2) The Council shall register an applicant who is qualified for registration as a chartered accountant unless, in its opinion, the applicant is not a fit person to be registered by reason of the fact that he is not of good character and reputation or has not an adequate knowledge of the English language.
- (3) Every chartered accountant shall become a member of the Institute upon his or her name being entered in the Register and shall remain a member for so long as he remains registered.

9. Registration fees

No person shall be placed upon the Register until he has paid such registration fees as are fixed by the Council.

10. Right of appeal to High Court

Any person who considers himself or herself aggrieved by any decision of

the Council under section eight shall have the right of appeal to the High Court.

11. Use of designation “Chartered Accountant (Zimbabwe)”

A member of the Institute shall be entitled to use the designation “Chartered Accountant (Zimbabwe)”, “Chartered Accountant (Z)” or “C.A.(Z)”.

12. Offences

(1) For the purposes of this Act, any of the following acts or omissions by a member of the Institute shall be treated as disgraceful conduct—

- (a) allowing any person not being a member of the Institute or in partnership with himself or herself as a chartered accountant to practise in his or her name as a chartered accountant;
- (b) directly or indirectly allowing a legal practitioner, broker or auctioneer, or other principal or agent not being his or her partner, to participate in the profits of his or her profession:
Provided that nothing in this Act shall be construed to prevent a chartered accountant from carrying on any other business in addition to that of accountancy which is not considered by the Council to be derogatory to the status of the Institute;
- (c) signing accounts, statements, reports or other documents purporting to represent any accountancy work performed by himself or herself, which work has not been carried on under his or her personal supervision or direction;
- (d) directly or indirectly paying any person a commission for bringing him or her accountancy work, giving any person monetary or other consideration as a remuneration for bringing him or her such work or inducing other persons to give him or her such work;
- (e) improperly obtaining or attempting to obtain work;
- (f) performing any work in connection with any matter which is the subject of dispute or litigation upon condition that only in the event of the said dispute or litigation ending favourably for the party for whom the work is performed shall payment be made for such work;
- (g) conducting himself or herself dishonourably;
- (h) wilfully contravening any by-law, rule or order made in terms of section twenty regarding any point of professional conduct or practice;
 - (i) engaging in any practices or performing any acts similar to those practices and acts prohibited in the foregoing paragraphs.

(2) Nothing in subsection (1) or in any by-law, rule or order referred to in paragraph (h) of that subsection shall be construed as precluding the Council from—

- (a) holding an inquiry into an allegation of disgraceful conduct which is not an act or omission referred to in that subsection; and
- (b) exercising the powers conferred upon the Council by sections thirteen to eighteen in relation to a member of the Institute found guilty by the Council of such disgraceful conduct.

13. Cancellation of registration and suspension from practice

(1) If, after inquiry, the Council decides that a member of the Institute—

- (a) is not qualified to remain registered; or

- (b) has been guilty of disgraceful conduct or negligence in his or her capacity as a chartered accountant, which conduct or negligence warrants his or her suspension from practice or the cancellation or suspension of his or her registration; the Council shall notify the member, in writing, of its decision and of the reasons for its decision.
- (2) If a member who has been notified of a decision of the Council referred to in subsection (1) fails to lodge notice with the Council, within thirty days of the date on which he is notified of the decision, of his or her intention to appeal to the High Court or, having lodged an appeal with the High Court, withdraws or abandons his or her appeal, the Council shall cancel or suspend his or her registration and shall cause an appropriate entry to be made in the Register.

14. Exercise of disciplinary powers by Council

If, after inquiry, the Council decides that a member of the Institute has been guilty of disgraceful conduct or negligence in his or her capacity as a chartered accountant which does not warrant the cancellation or suspension of his or her registration, the Council shall do one or more of the following—

- (a) make an order such as is referred to in subsection (3) of section sixteen;
- (b) impose a penalty, not exceeding an amount equivalent to a fine of level six, which shall be payable to the Institute; [amended by Act 22 of 2001, gazetted on the 1st February, 2002.]
- (c) censure him or her;
- (d) caution him or her.

15. Exercise of disciplinary powers by Council on conviction for offence: court to forward evidence

- (1) A member of the Institute who has been convicted inside or outside Zimbabwe, whether before or after registration, of an offence by a court of law shall be liable to be dealt with by the Council in accordance with the provisions of section thirteen or fourteen if the Council is of the opinion that the offence constitutes disgraceful conduct.
- (2) The Council may, if it thinks fit on proof before it of a conviction referred to in subsection (1) and without hearing further evidence, deal with the convicted person in accordance with section thirteen or fourteen:
Provided that the convicted person shall be afforded an opportunity of tendering, in writing or in person as he may elect, an explanation to the Council in extenuation of his or her conduct.
- (3) Whenever, after the termination of proceedings before a court in Zimbabwe, it appears to the court that there is prima facie evidence of disgraceful conduct on the part of a chartered accountant, the court shall direct that a copy of the record in the proceedings or a copy of such portion of the proceedings as is material to the issue shall be transmitted to the Council.

16. Inquiries by Council

- (1) The Council shall have power to hold inquiries for the purposes of this Act and for such other purposes as the Minister may approve.
- (2) The powers, rights and privileges of the Council in an inquiry shall be the same as those conferred upon a commissioner by the Commissions of

Inquiry Act [Chapter 10:07], other than the power to order a person to be detained in custody, and sections 9 to 13, 15 and 16 of that Act shall apply, mutatis mutandis, in relation to an inquiry and to a person summoned to give evidence or giving evidence at that inquiry.

- (3) The Council shall have power to order a member of the Institute whom the Council decides, after inquiry—
 - (a) is not qualified to remain registered; or
 - (b) has been guilty of disgraceful conduct or negligence in his or her capacity as a chartered accountant; to pay the expenses of holding the inquiry and any expenses incidental to the inquiry or any part of those expenses.
- (4) The Council shall, in any inquiry held by it in terms of this section, record the proceedings including any evidence heard by it and the decision made by it and the reasons therefor.

17. Appeals

- (1) Any person who is aggrieved by—
 - (a) a decision of the Council referred to in subsection (1) of section thirteen or section fourteen that he or she—
 - (i) is not qualified to remain registered; or
 - (ii) has been guilty of disgraceful conduct or negligence in his or her capacity as a chartered accountant;
 or
 - (b) the action taken against him or her by the Council in terms of paragraph (b), (c) or (d) of section fourteen or an order made by the Council in terms of subsection (3) of section sixteen; may, within thirty days of the date on which he is informed of the decision of or the action taken or order made by the Council, as the case may be, lodge notice with the registrar of the High Court of his or her intention to appeal therefrom.
- (2) In determining an appeal in terms of subsection (1), the High Court may confirm, vary or set aside any decision of or action taken by the Council referred to in subsection (1) and made an order accordingly.
- (3) An order in terms of subsection (2) may include such order as to costs as the High Court thinks fit.

18. Recovery by Council of fine or costs

The Council may by action in a competent court recover any penalty imposed in terms of section fourteen on, or costs ordered in terms of subsection (3) of section sixteen to be paid by, a member of the Institute.

[amended by Act 22 of 2001, gazetted on the 1st February, 2002.]

19. Persons having no claim against assets of Institute

No claim against the assets of the Institute shall exist in the case of or be made by any person whose name has ceased to appear upon the Register, or by the executors, administrators, heirs or assigns of such person.

20. By-laws

- (1) Subject to this section, the Council may make by-laws prescribing any matter which, in terms of this Act is required or permitted to be prescribed or which,

- in the Council’s opinion, is necessary or convenient to be prescribed for giving effect to this Act.
- (2) By-laws made under subsection (1) may provide for—
 - (a) the form and manner in which applications for membership of the Institute shall be made;
 - (b) qualifications for registration as a chartered accountant;
 - (c) fees payable for registration, the sitting of examinations and other things issued or done under this Act, and the times for payment of such fees;
 - (d) the time, mode and place of summoning and holding ordinary and special general meetings and the quorum thereat, and the mode of voting and the conduct of proceedings at any such meetings and the adjournment thereof;
 - (e) the procedure at meeting of the Council and the quorum thereat;
 - (f) the composition of the Council and the terms of office of its members, the mode of nomination of members of the Institute for election to the Council and the mode of filling casual vacancies on the Council;
 - (g) the training of student accountants by members of the Institute, and the circumstances in which their training contracts may be cancelled or suspended;
 - (h) the conduct of examinations for applicants for membership of the Institute, the syllabuses for such examinations, and the conditions on which examiners shall hold office and their remuneration;
 - (i) the election or appointment of the president and two vice-presidents of the Council;
 - (j) the issue by means of notices to members of the Institute, of rules or orders regarding professional conduct or practice with which, in the opinion of the Council, such members of the Institute should comply;
 - (k) generally, the furtherance of the objects of the Institute.
 - (3) By-laws made under section (1) may prescribe penalties, not exceeding a fine of level six, for contravention thereof.
[amended by Act 22 of 2001, gazetted on the 1st February, 2002.]
 - (4) By-laws shall not be made under subsection (1) unless they have been approved by a majority of two-thirds of the members of the Institute present in person or by proxy at a general meeting called for the purpose.
 - (5) By-laws made under subsection (1) shall not have effect until they have been approved by the Minister and published in a statutory instrument.

21. Penalty for unauthorized use of certain designations

- (1) Any person who, not being a member of the Institute—
 - (a) describes himself or herself or holds himself or herself out as a chartered accountant or uses any name, title, addition or description or letters indicating that he is a chartered accountant, whether by advertisement, by description in or at his or her place of business or residence, or in any document or otherwise; or
 - (b) uses the designation “Chartered Accountant (Zimbabwe)”, “Chartered Accountant (Z)” or “C.A.(Z)”; or
 - (c) uses the designation “Chartered Accountant” or the initials “F.C.A.” or

“A.C.A.” or “C.A. ”, either alone or in combination with any other words or any name, title or description unless he is a member of an institute, society or other body the membership of which is prescribed in terms of by-laws as a qualification for registration as a chartered accountant, whether by itself or in conjunction with other qualifications and which authorizes its members to use such designations or initials; shall be guilty of an offence and liable—

- (i) on a first conviction, to a fine not exceeding level six or to imprisonment for a period not exceeding one year or to both such fine and such imprisonment;
[amended by Act 22 of 2001, gazetted on the 1st February, 2002.]
 - (ii) on a second or subsequent conviction, to a fine not exceeding level seven or to imprisonment for a period not exceeding two years or to both such fine and such imprisonment.
- (2) A person who has been suspended from membership in terms of this Act shall, for the purposes of this subsection, be regarded as not being a member of the Institute during the period of such suspension.

BY-LAWS

Chapter 27:02 Chartered Accountants By-laws, 1997
Chapter 27:02
Chartered Accountants By-laws, 1997

Statutory Instrument 177/1997
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IT is hereby notified that the Minister of Justice, Legal and Parliamentary Affairs has, in terms of section 20 of the Chartered Accountants Act [Chapter 27:02], approved the following by-laws made by the Council of the Institute of Chartered Accountants of Zimbabwe:—

PART I PRELIMINARY

Title

Chapter 27:02 Chartered Accountants By-laws, 1997

1 These by-laws may be cited as the Chartered Accountants By-laws, 1997.

Interpretation of terms

2 (1) In these by-laws—

“**absentee chartered accountant**” means a chartered accountant who is not resident or practising in Zimbabwe;

“**area**” means each of the areas, as the case may be, referred to in subsection (2);

“**attest function**” means the examination of financial statements in accordance with international auditing standards with the object of furnishing a written opinion regarding their fairness and compliance with the applicable law;

“**Examinations Board**” means the Zimbabwe Chartered Accountants Examinations Board established under subsection (1) of section 51;

“**life member**” means a chartered accountant who has been elected by the Council to life membership;

“**non-practising chartered accountant**” means a committee set up in terms of section 35;

“**ordinary general meeting**” means a general meeting held in terms of section 34 authorising the holder thereof to practise as a chartered accountant;

“**practice review committee**” means a committee set up in terms of section 35;

“**practising certificate**” means a certificate issued in terms of section 34 authorising the holder thereof to practise as a chartered accountant;

“**practising member**” means a member of the Institute who is in private practice in Zimbabwe;

“**principal**” means a practising chartered accountant, or a partnership or company in private practice in Zimbabwe in which at least seventy-five per centum of the partners or shareholders, as the case may be, are chartered accountants;
[substituted by S.I.43 of 2002 with effect from 15th March, 2002.]

“**private practice**” means the practice of any person whose principal business or occupation is the performance of the business of a chartered accountant who—

-
- (a) for the purpose of such business or occupation, holds himself or herself out as such and maintains a business office; and
 - (b) places his or her services at the disposal of members of the public for reward:

Provided that a person whose services are substantially at the command of any one person, firm, corporation, public body or the government shall not be considered as being in private practice;

“professional service” means any service requiring accountancy or related skills performed by a chartered accountant, including accounting, auditing and consultation on matters dealing with taxation, management and financial management;

[inserted by S.I. 43 of 2002 with effect from 16th March, 2002.]

“registered address” means the address of a chartered accountant as notified by him or her to the Institute;

“registrar” means the registrar of the Institute;

“repealed by-laws” means the Accountant By-laws, 1982, repealed by section 62;

“retired member” means a chartered accountant who has retired from private practice and from all other business activities;

“rules” means the rules issued in terms of section 21;

“training contract” means a contract referred to in subsection (1) of section 43.
(2) For the purposes of these by-laws, Zimbabwe shall be divided into four areas to be known as Mashonaland, Matabeleland, Manicaland and Midlands.

PART II THE COUNCIL

Composition of Council

- 3 (1) The Council shall consist of at least sixteen chartered accountants of whom—
- (a) ten shall be ordinarily resident in Mashonaland and are elected to represent that area;
 - (b) four shall be ordinarily resident in Matabeleland and are elected to represent that area;
 - (c) one shall be ordinarily resident in Manicaland and is elected to represent that area; and
 - (d) one shall be ordinarily resident in the Midlands and is elected to represent that area; and
 - (e) not more than two shall be appointed by the Minister in terms of section 10; and
 - (f) not more than five shall be appointed by Council in terms of section 11;
 - (g) not more than one member shall be appointed by the president in terms of section 11A to represent the interest of affiliate members.

[inserted by S.I. 43 of 2002 with effect from 15th March, 2005.]

- (2) Immediately before the conclusion of each ordinary general meeting, five elected members of the Council shall retire from office but shall be eligible for re-election.
- (3) Elected members of the Council who have been longest in office since their last election shall retire, but, as between persons who became or were re-elected members of the council on the same day, those to retire shall, unless they otherwise agree among themselves, be determined by lot.
- (4) Notwithstanding subsections (2) and (3), if at any time one of the elected members due to retire in terms of those subsections is the longest serving vice-president, only four elected members of the council shall retire in terms of subsection (2) and the said vice-presidents shall not be required to retire at that time.

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- (5) In addition to the elected members of the Council retiring in terms of subsection (2), any member of the Council who was appointed or elected in terms of section 7 shall retire immediately before the conclusion of the ordinary general meeting following his appointment or election, as the case may be, but shall be eligible for re-election.

Nomination of members for Council

- 4 (1) A member of the Council who retires in terms of section 3 shall be deemed to have been nominated for re-election unless he or she has given notice in writing to the registrar that he or she does not wish to offer himself or herself for re-election.
- (2) Subject to subsection (1), a candidate for election to the council shall be nominated by three chartered accountants:
Provided that no chartered accountant may be nominated if he or she is under any liability to the Institute, other than his or her liability for subscriptions for the current year.
- (3) The nomination referred to in subsection (2) shall—
- (a) be in writing and signed by three members nominating the candidate; and
 - (b) indicate the area in which the candidate is ordinarily resident and will represent if elected; and
 - (c) be accompanied by a notice, in writing, signed by the candidate that he or she is willing to offer for election to the Council to represent the area indicated in terms of paragraph (b).
- (4) The nomination-paper and the notice referred to in subsection (3) shall be lodged with the registrar within thirty days subsequent to the 31st March preceding the ordinary general meeting.
- (5) The names of those members of the Council deemed to have been nominated in terms of the provisions of subsection (1), together with the names of candidates for whom nomination papers and notices have been lodged shall be posted on the notice board of the Institute from the date on which the nominations are known or have been lodged until the 30th of April.
- (6) A candidate may withdraw at any time or, with his or her consent, be withdrawn by the members who nominated him or her and such candidate shall be deemed not to have been nominated for that election.
- (7) After the 30th April, in each year and not later than the issue of the notice of the ordinary general meeting the registrar shall notify the

members of the institute of the candidates who have been nominated for election, indicating the area which each such candidate would represent if elected.

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If the number of candidates nominated or deemed to have been nominated in terms of section 4 to represent any area—

- (a) does not exceed the number of vacancies on the Council in respect of members representing that area, each such candidate shall be deemed to have been elected to the Council with effect from immediately before the dissolution of the ordinary general meeting;
- (b) exceeds the number of vacancies on the Council in respect of members representing that area, a ballot in accordance with the provisions of section 6 shall be held, and the members elected in terms of that section shall enter into office with effect from immediately before the dissolution of the ordinary general meeting.

Ballot for members of Council

- 6 (1) Voting shall be by secret ballot.
- (2) The Registrar shall, before or at the same time as he sends the notice of the ordinary general meeting, send to each chartered accountant a ballot paper which, in relation to each area affected—
- (a) specifies the names of the candidates to represent that area; and
 - (b) states the number of vacancies on the Council in respect of members representing that area; and
 - (c) request the selection of candidates by order of preference for each area.
- (3) A chartered accountant shall be entitled, and if he or she votes, shall be obliged, in relation to each area in which a ballot is to be held—
- (a) to cast that number of votes which equals the number of candidates standing in that area, and in casting his or her votes, he or she shall indicate his or her order of preference in respect of each vote so cast; and
 - (b) shall indicate such preference by placing numbers, in sequence, against the name of each candidate for whom he or she votes, his or her first preference being indicated by the number 1.

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- (4) Any ballot which does not comply with the provisions of subsection (3) shall be a spoilt ballot paper and shall not be counted.
 - (5) Ballot papers duly completed, shall be returned so as to be received by the Registrar not later than forty-eight hours before the date of the ordinary general meeting.
 - (6) The Council or a committee appointed by the Council for the purposes shall meet before the date of the ordinary general meeting and shall count the votes cast for the purpose of declaring which candidates have been elected.
 - (7) The election shall be as follows—
 - (a) on the first round of counting the first choice only of each voter shall be counted and if any candidate polls more than fifty per centum of the first choice votes cast, he shall be declared to be elected to the first vacancy;
 - (b) if, on the first round of counting no single candidate polls more than fifty *per centum* of the first choice votes, the candidate polling the least number of votes shall be eliminated for that round and the votes recounted adding the second choice votes of all those voters who had nominated the eliminated candidate as their choice to the first choice vote of all other voters;
 - (c) if any candidate polls more than fifty per centum, of the votes counted on the second count in the first round as described in paragraph (b), he shall be declared to be elected, failing which the candidate with the least number of votes then counted shall again be eliminated for that round and the same procedure, shall continue to be followed, *mutatis mutandis*, until a candidate polls more than fifty per centum, and he shall be declared elected to the vacancy for which that counting took place;
 - (d) the second round of counting shall take place once a candidate has been elected to the first vacancy in terms of paragraph (a) or paragraphs (b) and (c) and the procedure set out in those paragraphs shall apply, *mutatis mutandis*, save that the second choice of the candidates elected to the first vacancy shall be treated as first choice votes for the first count on the second round of counting, and the procedure shall continue until a candidate polls more than fifty per centum of the votes counted;
 - (e) once the second vacancy has been filled, the third and subsequent rounds of counting shall take place in accordance with the procedure set out in paragraphs (a), (b), (c) and (d) until all the vacancies have been filled;

- (f) a candidate eliminated for any particular round of counting will be re-instated as a candidate for the next round of counting and the votes cast for him or her in the round in which he or she was eliminated shall be counted;
- (g) in the event of any equality of votes, the equality shall be resolved by the casting of lots by the Registrar in the presence of the ballot committee.

Filling of vacancies

- 7 Any casual of the Council, including a vacancy caused by the retirement of a member in terms of section 3 and the number of candidates nominated in terms of section 4 to represent a particular area is less than the number of vacancies on the Council in respect of members representing that area, may be filled by the Council appointing a chartered accountant who is ordinarily resident in the area concerned to represent that area:

Provided that the Council may, if it considers it desirable, hold a ballot in accordance with section 6 for the purpose of filling such vacancy, and the section 4 shall apply, mutatis mutandis, in relation to the nomination of candidates to fill such vacancy.

Vacation of office

- 8 (1) A member of the Council shall vacate his or her office and his or her office shall be come vacant if—
- (a) by notice in writing to the Council if he or she resigns his or her office; or
 - (b) he or she ceases to be a chartered accountant; or
 - (c) he or she is absent without leave from more than two consecutive regular meetings of the council and the Council resolves that his or her office becomes vacant; or
 - (d) he or she becomes mentally disordered or defective; or
 - (e) he or she has, in terms of any enactment—
 - (i) been adjudged or otherwise declared insolvent; or
 - (ii) made an assignment to or arrangement or composition with his or her creditors which has not been rescinded or set aside; or
 - (f) he or she is convicted by a competent court of any criminal offence which, in the opinion of the Council, is of a disgraceful or dishonourable nature; or

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- (g) at a meeting of the Institute specially convened for that purpose, a resolution is passed that he be removed from office; or
 - (h) he or she ceases to be ordinarily resident in the area which he was elected or appointed to represent.
- (2) The Council shall not grant leave of absence to a member of the Council for a period in excess of six consecutive months

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President and vice-presidents

- 9 (1) At the first meeting of the Council held after the ordinary general meeting, the Council shall elect one of its members as president and two others as vice-presidents.
- (2) The president and vice-presidents shall hold office until the next ordinary general meeting.
- (3) Any vacancy in the office of president or vice-president occurring before the next ordinary general meeting shall be filled by the Council.

Appointments by Minister

- 10 (1) A member appointed by the Minister in terms of paragraph (e) of subsection (1) of section 3—
- (a) shall hold office for such period, not exceeding three years, as the Minister may fix at the time of his or her appointment;
 - (b) may be removed from office, by the Minister at any time before his or her term of office has expired;
 - (c) may, by notice in writing to the Minister, resign at any time before the expiry of his or her term of office;
 - (d) shall be eligible for re-appointment upon the expiry of his or her term from office.
- (2) Before making an appointment in terms of paragraph (a) of subsection (1) of section 3, the Minister shall consult the Council.
- (3) A member appointed by the Minister shall—
- (a) convey such messages or representations to the Council concerning general matters of policy as the Minister may wish to bring to the attention of the Council; and

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- (b) whenever so requested by the Minister, report to the Minister on any of the business of the Council.

Appointments by Council

11 A member appointed by the Council in terms of paragraph (f) of subsection (1) of section 3 shall—

- (a) hold office for such period not exceeding three years as the Council may fix at the time of his or her appointment.
- (b) hold office subject to section 8.

[amended by S.I. 43 of 2002 with effect from 15th March, 2002.]

- (c) be eligible for re-appointment upon the expiry of his or her term of office.

Appointment by president

11A A member appointed by the president in terms of paragraph (g) of subsection (1) of section 3 shall—

- (a) hold office for such period not exceeding three years as the president may fix at the time of his or her appointment;
- (b) hold office subject to section 8;
- (c) be eligible for re-appointment upon the expiry of his or her term of office.

[inserted by S.I.43 of 2002 with effect from 15th March, 2002.]

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PART III MEETINGS OF COUNCIL

Quorum of Council

12 At any meeting of the Council, six members shall form a quorum.

Meetings of Council

13 The Council shall meet at such times and such places as it may from time to time determine.

Special meetings of Council

- 14 (1) A special meeting of the Council may be called at any time—
- (a) by the president; or
 - (b) by the vice-presidents; or
 - (c) at the written request of five members of the Council;
- (2) The notice calling the special meeting of the Council shall specify the general nature of the business to be transacted at the meeting.

Notice of meeting of Council

- 15 (1) Except in the case of an emergency, notice of every meeting of the Council shall be given in writing by the registrar to each member of the Council at least seven days before the date of the meeting.
- 2) The accidental omission to give notice of any meeting to, or the non-receipt of any such notice by a member of the Council shall not invalidate the proceedings at that meeting or any resolution passed at that meeting.

Chairman of meetings of Council

- 16 (1) The president or, in his or her absence, a vice-president shall be chairman at any meeting of the Council.
- (2) If, after fifteen minutes from the time appointed for any meeting, neither the president nor a vice-president is present, the members of the council shall elect a chairman to preside over that meeting.

Voting at meeting of Council

- 17 (1) All matters to be done by the Council may be decided by the majority vote at a meeting of the Council at which a quorum is present.

Provided that any proposal circulated amongst all members of the Council and agreed to, in writing, by a majority of all such members shall be of the same effect as a resolution passed at a duly constituted meeting of the Council, and shall be incorporated in the minutes of the next succeeding meeting of the Council, unless a member of the Council requires that the proposal be placed before a meeting of the council, in which case this proviso will not apply to the proposal.

- (2) At all meetings of the Council, each member present shall have one vote on any question before the Council and, in the event of an equality of votes, the chairman shall have, in addition to a deliberative vote, a casting vote.

Adjournment of meetings of Council

- 18 (1) A meeting of the Council may be adjourned from time to time and from place to place but no business shall be transacted at an adjourned meeting other than the business left unfinished at a meeting from which the adjourned meeting took place.
- (2) It shall not be necessary to give notice of an adjourned meeting unless the meeting from which the adjournment took place, by resolution, so directed.

Minutes of meetings of Council

- 19 Minutes of all proceedings at a meeting of the Council or of committees of the Council shall be entered in books kept for the purpose and any such minutes, if purporting to be signed by the chairman of the meeting at which the proceedings were held or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

PART IV PROCEEDINGS AND POWERS OF COUNCIL

Payment of expenses of members of Council

- 20 (1) The Council may pay out of the funds of the Institute the reasonable expenses incurred by members of the Council in connection with attending any meeting of the Council or any committee of the Council.
- 2) If a chartered accountant, at the request of the Council, performs any special services for the Institute—
- (a) he or she shall, if he or she so requests, be reimbursed for any outlays made and expenses incurred by him or her on behalf of the Institute; and
 - (b) he or she may be remunerated for his or her services.

Rules of professional conduct

- 21 The Council may from time to time issue a list of the chartered accountants and their addresses, together with such particulars in respect of members and of the Institute as the Council considers advisable.

Lists of chartered accountants

- 22 (1) The Council may from time to time issue a list of the chartered accountants and their addresses, together with such other particulars in respect of members and of the Institute as the Council considers advisable.
- (2) Copies of the lists referred to in subsection (1) may be supplied to any chartered accountant at such fee, if any, as the Council may determine.

Copies of Act and by-laws

- 23 The Council shall supply a copy of the Act, these by-laws and the rules to—
- (a) a student accountant on the registration of his or her training contract; and
 - (b) a member on his or her admission to the Institute if he or she was not a student accountant.

Appointment of committees

- 24 (1) Subject to these by-laws, the Council may establish any committee to assist the Council in the exercise of its functions.

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- (2) The Council may appoint any member of the Institute to be a member of a committee established in terms of subsection 91).
 - (3) The Council may, in relation to any committee established in terms of subsection (1)—
 - (a) determine its functions; and
 - (b) fix a quorum for any meeting of the committee; and
 - (c) make rules for the regulation of its proceedings.

Common Seal of Institute

- 25 (1) The Council shall provide for the safe custody of the Common Seal of the Institute and such seal shall not be used or affixed to any instrument except on the authority of the Council.
- (2) Any instrument to which the Common Seal of the Institute is affixed shall—
 - (a) be signed by the president, a vice-president or a member of the Council appointed by the Council for the purpose; and
 - (b) be countersigned by the registrar or any other person appointed by the Council.

PART V

MEMBERSHIP OF THE INSTITUTE

Application for membership of Institute

- 26 (1) Application for membership of the Institute shall be made to the Council in a form approved by the Council.
- (2) An applicant for membership of the Institute shall certify that the information given by him or her on the form referred to in subsection (1) is complete, true and correct and shall, in the event of his or her admission to the Institute, under take to observe the Act and these by-laws and the rules.
- (3) An applicant for membership of the Institute shall satisfy the Council that he or she is—
- (a) qualified for registration as a chartered accountant in terms of section 27; and
 - (b) is a fit and proper person to be admitted to membership of the Institute.

Requirements for registration as chartered accountant

- 27 A person shall be qualified for admission to membership if—
- (a) he or she has—
 - (i) completed the appropriate period of training required under section 43; and
 - (ii) furnished such evidence of practical experience as the Council may require; and
 - iii) passed the qualifying examination specified in the First Schedule (Page 56).or
 - (b) he or she—
 - (i) is a member in good standing of a professional body of accountants approved by the Council for the purposes of this section, having passed an examination approved by the Council; and
 - (ii) has furnished such evidence of practical experience as the Council may require; and

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- (iii) has passed the conversion examinations specified in the First Schedule (Page 56).

Registration and subscription fees

- 28 (1) An applicant for admission to the Institute shall submit with his or her application the registration fee payable in terms of section 9 of the Act and if he or she is refused admission, such fee shall be refunded.
- (2) The annual subscription payable by a chartered accountant shall be fixed by the Council and in so doing the Council may fix different rates for—
- (a) honorary life members;
 - (b) life members;
 - (c) honorary members;
 - (d) practising members;
 - (e) non-practising members;
 - (f) absentee members;
 - (g) retired members; or
 - (h) members grouped by residence or non-residence in Zimbabwe.

[substituted by S.I.43 of 2002 with effect from 15th March, 2002.]

- (3) The Council may, instead of annual subscription, fix a subscription payable by retired members of the Institute.

Resignation from Institute

- 29 (1) A member of the Institute may at any time resign his or her or her membership by—
- (a) notice in writing to the Council; and
 - (b) submitting with his or her notice the certificate of membership issued to him or her;

Provided that the Council—

- (i) shall dispense with the requirement set out in paragraph (b) of this subsection if it has permitted the member, in terms of

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- subsection (2) of section 33, to retain the certificate;
 - (ii) may dispense with the requirement of paragraph (b) of this subsection if it is satisfied that the member has lost his or her certificate or that the certificate has been destroyed.

- (2) Notice given in terms of subsection (1) after the 31st March in any year shall not relieve a member from his or her liability to pay the annual subscription in respect of the current year.

Death of a chartered accountant

- 30 The Council shall remove from the register the name of any chartered accountant who has died.

Liability to pay subscription

- 31 (1) A registered chartered accountant shall be liable to pay the annual subscription fees on or before the 31st July of the year in respect of which it is due and—
 - (a) if he or she fails to pay the subscription fees on or before 31st July, he or she shall, subject to subsection (2), be liable to pay to the Institute such surcharge as the Council may impose;
 - (b) if he or she fails to pay such subscription, together with any surcharge referred to in paragraph (a), on or before the 31st October of the year in which such subscription is due, he or she shall subject to subsection (3), be liable to have his or her name removed from the Register by the Council.
- (2) A surcharge imposed in terms of subsection (1)—
 - (a) shall not exceed twenty-five *per centum* of the annual subscription for each month or part thereof during which the subscription remains unpaid;
 - (b) may be remitted by the Council in whole or in part if the person concerned proves to the satisfaction of the Council that the remission is justifiable.
- (3) The Council shall not remove the name of any person from the Register in terms of paragraph (b) of subsection (1) unless—
 - (a) payment of the annual subscription fees and any surcharge due has been demanded by registered letter sent through the post to the member at his or her registered address, or if none, at his or her last known address; and
 - (b) the Council has—

- (i) informed the member concerned by registered letter sent through the post to such member at his or her registered address or, if none, at his or her last known address, of its intention to remove his or her name from the Register; and
 - (ii) afforded him or her a period of not less than thirty days within which to pay his or her subscription and any surcharge, or to make representations to the Council as to why his or her name should not be removed from the Register.
- (4) A person whose name has been removed from the Register in terms of subsection (1) and who subsequently wishes to be reinstated on the Register shall apply in terms of section 8 of the Act for registration.

Publication of names of chartered accountants suspended or removed from Register

- 32 (1) The Council shall publish in the Gazette—
- (a) the names of any members of the Institute whose registration has been cancelled in terms of section 13 of the Act; or
 - (b) the names of any members of the Institute who have been removed from the Register in terms of section 31;
 - (c) the names of any members of the Institute suspended in terms of section 13 of the Act.
- (2) Where a suspension is lifted, the lifting of the suspension shall be notified in the Gazette.

Certificate of membership

- 33 (1) A certificate of membership of the Institute shall be in form approved by the Council and shall remain the property of the Institute.
- (2) A member shall be entitled to a certificate of membership but shall return the certificate in the event of his or her resignation, suspension or cancellation of the registration unless the Council permits him or her to retain it.

PART VI PUBLIC PRACTICE

Practising certificates

- 34 (1) No chartered accountant shall be entitled to practise as a chartered accountant except in accordance with this section.
- (2) A chartered accountant intending to practise shall apply to the Council for the issue or renewal of a practising certificate.
- (3) An application for the issue or renewal of a practising certificate shall be accompanied by—
- (a) an insurance certificate of professional indemnity in accordance with such requirements as the Council may specify; and
 - (b) such fee as the Council may fix; and
 - (c) in the case of a chartered accountant who was at any time in charge of any trust funds, an audit certificate prepared by a registered public auditor in respect of the trust funds held or managed by him or her during the immediately preceding twelve months ended on 31st March and a declaration that any funds held or managed by him or her will be subject to an audit by a registered public auditor.

[substituted by S.I.43 of 2002 with effect from 15th March, 2002.]

- (d) in the case of a chartered accountant who was not in charge of any trust funds, a declaration that, in the immediately preceding twelve months ended on the 31st March, no trust funds were held or managed by him or her; and

[amended by S.I.43 of 2002 with effect from 15th March, 2002.]

- (e) a certificate stating that during the twelve months immediately preceding the 31st March, the applicant completed at least twenty hours of continuing professional education recognised by the Institute and during the three years prior to that date, he completed more than one hundred and twenty hours of the relevant continuing professional education.
- (f) a list of all partners and shareholders with whom the applicant is associated in providing professional service.

[inserted by S.I.43 of 2002 with effect from 15th March, 2002.]

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- (4) If the Council is satisfied—
- (a) with the application submitted in terms of subsection (3); and
 - (b) in the case of an applicant who has been in practice, that any recommendations of the practice review committee have been implemented; and
 - (c) that the applicant is a fit and proper person to hold a practising certificate;

the Council shall issue to the applicant a practising certificate in the form approved by the Council.

- (5) A practising certificate shall be valid from the date of issue until next 30th June.
- (6) A practising certificate issued to a chartered accountant, who is suspended from practice or whose registration is cancelled or suspended in terms of section 13 of the Act shall cease to be valid from the date of cancellation or suspension and the chartered accountant or former chartered accountant concerned shall forthwith return the practising certificate to the Council.
- (7) A chartered accountant who has been issued with a practising certificate shall be deemed to be a practising member for the purposes of subsection (2) of section 28 and shall be liable to pay the annual subscription payable by practising chartered accountants.

Practice review committee

- 35 (1) The Council shall appoint a committee to be known as the practice review committee.
- (2) The practice review committee shall consist of—
- (a) a chairman, who shall—
 - (i) be a non-practising chartered accountant; and
 - (ii) not be a member of the Council;
and
 - (b) two members from firms with five or more partners; and
 - (c) two members from firms with not more than four partners;
and

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- (d) the chief executive officer of the Institute, ex officio.
- (3) The period of office of members of the practice review committee referred to in paragraphs (b) and (c) of the subsection (2) shall be such period as may be fixed in each case by the Council at the time of their appointment.:

Provided that—

- (i) any member shall be eligible for re-appointment;
 - (ii) the Council may, without assigning reasons, request any member of the practice review committee to retire from the practice review committee if at any time the Council considers it necessary or desirable to do so.
- (4) The functions of the practice review committee shall be—
- (a) as far as it is reasonably necessary for the purpose of upholding the integrity of the profession, to review, in accordance with such procedures as the Council may, from time to time determine, the practices of chartered accountants in private practice to ensure the maintenance of professional standards;
 - (b) to conduct an appraisal of the practices of chartered accountants and to make such recommendations as may be considered necessary for the improvement of professional standards in respect of any such practice.
- (5) The practice review committee shall have power to—
- (a) as far as it is reasonably necessary for the purpose of upholding the integrity of the profession, to review, in accordance with such procedures as the Council may, from time to time determine, the practices of chartered accountants in private practice to ensure the maintenance of professional standards.
 - (b) to combat an appraisal of the practices of chartered accountants and to make such recommendations as may be considered necessary for the improvement of professional standards in respect of any such practice.
- (6) If at a meeting of a practice review committee the chairman is absent, the members present shall elect one of their number to preside at the meeting as chairman.
- (7) Subject to this section, a practice review committee shall meet and regulate its business as it thinks fit.

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- (8) A majority of members shall form a quorum at a meeting of a practice review committee.
 - (9) All acts, matters or things authorised be required to be done by a practice review committee shall be decided by a majority vote at a meeting at which a quorum is present.
 - (10) At all meetings of a practice review committee, each member shall have one vote and in the event of an equality of votes, the chairman shall have a casting vote.
 - (11) For the purpose of carrying out its functions, a practice review committee may appoint a subcommittee to which it may delegate such of its functions as it thinks fit and the subcommittee shall report to the practice review committee which shall—
 - (a) consider the report and any recommendations of the subcommittee; and
 - (b) report to the Council and make recommendations in that regard.
 - (12) In the performance of its functions, the practice review committee or its subcommittee shall maintain confidentiality in respect of any documents, reports, files, books, or any other material and generally in respect of any matter pertaining to its functions or the affairs of any chartered accountant and his or her client.
 - (13) Notwithstanding subsection (12), disclosure of information shall be permissible if it is necessary for the purpose of investigating any offence or misconduct.
 - (14) Any member of the practice review committee, its subcommittee or any person acting on its behalf who contravenes subsection (12) shall, without in any way limiting the remedies available to a complainant, be liable to disciplinary action in terms of section 14 of the Act.
 - (15) No member of the practice review committee, its subcommittee or any person acting on their behalf shall be held personally liable for any action or omission in respect of the exercise of their functions unless he has willfully departed from the guidelines issued by the Council for that purpose and members of the practice review committee, its subcommittee or any person acting on their behalf shall be—
 - (a) reimbursed for losses and expenses reasonably; or
 - (b) subject to subsection (12) and (15), indemnified in respect of liability; incurred by them in or about the discharge of their duties.

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- (16) The cost of conducting a practice review shall be borne by each firm or chartered accountant, as the case may be, whose practice has been reviewed at such rate as may be fixed by the Council and shall be payable to the Council

NB: Specific information regarding Practice Reviews is contained in APPENDIX 1 to this handbook.

PART VII MEETINGS OF INSTITUTE

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Special general meeting of Institute

- 36 (1) The Council may, on receipt of a written request signed by not less than ten chartered accountants, call a special general meeting specifying the object of the proposed meeting and the general nature of the business to be transacted at the meeting.
- (2) The notice calling a special general meeting in terms of subsection (1) shall be issued by the Council within twenty-one days of the receipt of the request.
- (3) No business other than that specified in the notice convening the meeting shall be transacted at a special general meeting.

Notice of meetings of Institute

- 37 (1) The Council shall give not less than twenty-one days notice of any general meeting of the Institute to each chartered accountant at his or her registered address specifying the day, place and time of the general meeting.
- (2) The accidental omission to give notice to or the non-receipt of a notice by any chartered accountant shall not invalidate the proceedings at any such general meeting or any resolution passed at that meeting.

Chairman of meetings of Institute

- 38 (1) The president or, in his or her absence, a vice-president shall preside at a general meeting of the Institute.
- (2) If neither the president nor a vice-president is present at a general meeting the chartered accountants present at that meeting shall elect any member of the Council present to preside or, if no member of the Council is present, any chartered accountant present may be elected to preside at the meeting.

Voting at meetings of Institute

- 39 (1) All matters to be decided at a general meeting of the Institute at which a quorum is present shall be decided by a majority vote.
- (2) At all general meetings of the Institute, each chartered accountant present shall have one vote on any question before the Institute and, in

the event of an equality of votes, the chairman shall have, in addition to a deliberative vote, a casting vote.

Quorum of meetings of Institute

- 40 (1) Subject to this section 25 chartered accountants shall constitute a quorum at a general meeting.
- (2) Subject to subsection (4), if, within fifteen minutes of the time appointed for a general meeting, a quorum is not constituted, the meeting shall stand adjourned for one week to be held at the same time and place.
- (3) At an adjourned meeting, the chartered accountants present shall form a quorum and shall have full power to transact the business of the meeting which would have been transacted had the meeting been held on the date on which it was called.
- (4) Subsection (2) shall not apply in respect of a special meeting called in terms of subsection (1) of section 36.

Procedure at meetings of Institute

- 41 (1) Any resolution or amendment to a resolution proposed and seconded at a general meeting shall be put to the meeting by the chairman and, subject to subsection (2), shall be decided by a show of hands.
- (2) A poll shall be taken on a resolution or amendment to a resolution proposed and seconded at a general meeting—
- (a) if the poll is requested by not less than ten chartered accountants immediately after the declaration by the chairman of the result following a show of hands in terms of subsection (1); or
- (b) upon a written request signed and submitted before the dissolution or adjournment of the meeting by not less than ten chartered accountants present at the meeting.
- (3) Unless a poll is held in terms of subsection (2), a declaration by the chairman that a resolution or amendment to a resolution has, on a show of hands, been carried or carried unanimously or lost and an entry to that effect in the minutes relating to that meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution or an amendment to the resolution.
- (4) A poll in terms of subsection (2) shall be held in such manner as the chairman may direct.

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- (5) The chairman shall appoint scrutineers from among the chartered accountants present, not being proposers or seconders of the resolution or amendment thereto, or persons the subject of or mentioned in the resolution or amendment thereto, and such scrutineers shall sign their report on the result of the poll, and the result shall be declared by the chairman.
 - (6) No poll shall be taken as to the election of the chairman or adjournment of a general meeting.

PART VIII STUDENT ACCOUNTANTS

Engagement of student accountants

- 42 (1) No principal may engage a student accountant except with the approval of the Council given, on application to the Council in writing, if the Council is satisfied that the practice or business of the principal is of such a character as to afford the student accountant the required practical training:

[inserted by S.I. 112 of 1999 with effect from 9th April, 1999.]

Provided that this subsection shall be considered to have been met if—

- (i) the principal proves to the satisfaction of the Council that suitable arrangements to provide for the practical training of the student accountant have been made by the principal with another principal; and
 - (ii) the Council, in its discretion, is satisfied that such arrangements make adequate safeguards for and are in the best interests of the student accountant.
- (2) The registrar shall, as soon as practicable, inform the principal in writing of the decision of the Council specifying—
- (a) if approval has been granted—
 - (i) the number of student accountants which he may engage; and
 - (ii) the conditions, if any, subject to which the approval is granted;or
 - (b) if approval is not granted, the reasons for the refusal to grant the approval.
- (3) The Council may from time to time vary the number of students accountants which any principal may engage and the conditions on which they may be engaged.
- (4) The period of training of a student accountant shall not be interrupted by reason of a change in the composition of a firm of chartered accountants under which he or she is training.
- (5) Where a principal under whom a student accountant is training ceases for any reason to practise, the Council shall assign the student

accountant to such other principal as the Council may direct to enable him or her to complete the period specified in his or her training contract.

Engagement as student accountant and period of training

- 43 (1) No person shall be engaged as a student accountant —
- (a) except under a written training contract in a form approved by the Council and duly executed by the parties thereto; and
 - (b) unless —
 - (i) he or she possesses the entry qualifications specified in the First Schedule; or
 - (ii) he or she is the holder of a degree recognized by the Council; or
 - (iii) he or she has attained an educational standard which the Council considers to be adequate for purposes of becoming a student accountant.
- (2) The period of training shall be —
- (a) in the case of a person referred to in subparagraph (i) or (ii) of paragraph (b) of subsection (1), three consecutive years; or
 - (b) in the case of a person referred to in subparagraph (iii) of paragraph (b) of subsection (1), five consecutive years.
- (3) Notwithstanding subsection (2), the Council may reduce the period of training in respect of—
- (a) a student accountant who, during the course of this training, obtains a degree recognised by the Council:

Provided that such period shall not be reduced by more than two years;
 - (b) a person who has served for a continuous period of more than one year under a training contract in the practice of a professional accountant in another country.
- (4) The Council may condone a break in the period of training by a student accountant and upon such condonation, shall extend the period of training by not more than the full period of the break on such conditions as the Council may impose.

Conditions of service under training contract

- 44 (1) Subject to subsection (4) of section 42, a student accountant shall, during training, remain under the employment and supervision of the principal with whom he has concluded his or her training contract, or of the partner or partners of that principal.

Provided that the Council may, subject to subsection (1) of section 42, in its discretion, permit the student accountant to serve part of his or her period of training contract in the employment of another principal.

- (2) No student accountant shall, during the course of his or her training, engage in any other business or occupation except with the written permission of the principal.

Probationary period

- 45 (1) A student accountant entering into training shall serve the first fifteen months on probation:

Provided that—

- (i) any continuous period in excess of fourteen days during which a student accountant is for any reason absent from the office of the principal with whom he is training for shall not be counted as part of the period of probation, and the period of probation shall be extended by the period of such absence;
 - (ii) the Council may, on application of the parties to the training contract, extend the period of probation by not more than one and a half months.
- (2) The period of probation referred to in subsection (1) shall count as part of the period of training.
- (3) At the end of the period of probation, the parties to the training contract shall be deemed to have confirmed the training contract unless a request by either party for cancellation of the training contract is made.
- (4) A request for the cancellation of a training contract in terms of subsection (3)—
- (a) in the case of a student accountant who is a minor, shall be signed by his or her guardian;
 - (b) shall entitle the principal to a refund of such portion of the registration fee as the Council may determine:

Provided that, if the registration fee was paid by the student accountant, that student accountant shall be entitled to the refund;

- (c) shall not be construed as a breach of contract or wrongful dismissal entitling either party to a claim for damages; or wrongful dismissal;
- (d) may be made without any obligation to state the reason therefore.

Registration of training contract

- 46 (1) Within three months from the date of the date of the execution of a training contract, the contract shall be lodged with the registrar for registration accompanied by—
- (a) the birth certificate of the student accountant; and
 - (b) a duly completed application for membership to a students' society, if any, of the district in which he or she is resident; and
 - (c) the registration fee determined by Council; and
 - (d) such other requirements or fees as the Council may determine.
- (2) The date of registration shall be the date on which the training contract was executed or such other date as the Council and the parties to the training contract may, having regard to the circumstances of the case, agree upon.

Transfer of student accountant

- 47 (1) If a principal—
- (a) dies; or
 - (b) ceases to be a chartered accountant; or
 - (c) for any reason ceases to practise; or
 - (d) fails to satisfy the Council that he or she is—
 - (i) practising; or
 - (ii) able to provide the student accountant with adequate training;

the Council may authorise and direct that a new training contract in respect of the unexpired period of training be entered into between the student accountant and another principal and may grant the student accountant such other relief as it considers just in the circumstances.

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- (2) No transfer of a student accountant shall be valid unless the parties to the new training contract have secured its registration with the Council.

Powers of Council in connection with training contracts

- 48 (1) The Council may direct the registrar to—
- (a) refuse to register a training contract; or
 - (b) refuse to register a new training contract on the transfer or assignment of a student accountant; or
 - (c) cancel a training contract;

if, in the opinion of the Council, it is in the interests of the Institute to do so.

- (2) If a request to cancel the training contract of a student accountant is made—
- (a) jointly by the principal and the student accountant; or
 - (b) in terms of subsection (3) of section 45, the registrar shall cancel the said training contract and shall report such cancellation at the next meeting of the Council:

Provided that, on receipt of any such request, the registrar may, if he considers it desirable in the circumstances, refuse to cancel the said training contract and refer the request to the Council for its decision.

- (3) The Council may, whether or not a complaint has been received, make an inquiry or investigation to ascertain whether or not the terms of any training contract are being carried out by the Student accountant or his or her principal.

Completion of period of training

- 49 (1) On completion of the period of training, the principal shall—
- (a) advise the Council accordingly; and
 - (b) forward the training contract, duly endorsed to this effect, to the registrar.
- (2) An endorsement in terms of paragraph (b) of subsection (1) shall, in addition, state whether or not the student accountant has performed his or her duties under the contract to the satisfaction of the principal.

Misconduct by student accountant or principal

50 (1) If, at a meeting of the council, a resolution is passed that it has been proved to the satisfaction of the Council that—

(a) a student accountant has—

- (i) not carried out the terms of his or her training contract; or
- (ii) so conducted himself or herself, whether by acts of commission or omission, as to make the student accountant unfit to become a chartered accountant;

or

(b) the principal of a student accountant has—

- (i) not carried out the terms of the training contract; or
- (ii) so conducted himself or herself, whether by act of commission or omission, as to make himself or herself unfit to engage a student accountant;

the training contract shall be terminated and the registration thereof shall be cancelled.

(2) Where a resolution in terms of subsection (1) has been passed in respect of the conduct of the principal of a student accountant, the Council may—

- (a) grant such relief to that student accountant as it thinks just in the circumstances; and
- (b) take whatever action it thinks fit in the circumstances against the principal.

PART IX EXAMINATIONS

Zimbabwe Chartered Accountants Examinations Board

- 51 (1) There is hereby established a board to be known as the Zimbabwe Chartered Accountants Examinations Board.
- (2) The members of the Examinations Board shall be appointed by the Council and shall hold office until they resign or are removed from the office by the Council.
- (3) The functions of the examinations board shall be to advise the Council in relation to—
- (a) the conduct and control of the examinations of the Institute;
 - (b) the appointment and remuneration of examiners and moderators; and
 - (c) such other functions as may be specified by the Council from time to time.

Examinations

- 52 (1) The examination for applicants for registration shall be that set out in the First Schedule.
- (2) Candidates writing the examination referred to in subsection (1) shall comply with any examination rules issued by the Institute.

Permission to sit examinations

- 53 No person shall be entitled to sit any examination held in terms of these by-laws unless permission by the Council has been granted in terms of this section.
- (2) Subject to subsection (3), an application for permission to sit an examination referred to in section 52 shall be made to the Council not less than three months before the date of the examination.
- (3) Where application to sit the examination referred to in section 52 is made less than one month before the date of the examination, it shall be accompanied by such late application fee as may be fixed by the Council:

[amended by S.I. 43 of 2002 with effect from 15th March, 2002.]

Provided that the Council may refund the late application fee or such portion of the fee as the Council may determine if, in its opinion, the application was late through no fault or negligence on the part of the applicant.

- (4) The Council—
- (a) shall refuse to grant permission if—
 - (i) candidate is not undergoing training or has not completed his training in accordance with these by-laws; or
 - (ii) in its opinion, the candidate has not obtained any of the qualifications referred to in paragraph 2 of the First Schedule;
 - (b) shall not, subject to paragraph (a), refuse permission to sit the examination held in terms of these by-laws unless, in its opinion, there is good reason for the refusal to grant the application.

PART X ACCOUNTS, AUDIT AND REPORT

Accounts and report of Council

- 54 The Council shall, in respect of each financial year of the Institute, cause to be prepared a statement of accounts in such form as the Council may decide, together with a report to the members of the Institute.

Audit of accounts

- 55 The accounts shall be audited by an auditor or auditors appointed in terms of section 57.

Submission of reports and accounts to members of Institute

- 56 A copy of the statement of accounts together with auditor's report on the accounts and the report of the Council shall be sent to each chartered accountant with the notice of the ordinary general meeting.

Appointment of auditors

- 57 The Council shall appoint an auditor or auditors and shall fix their remuneration.

PART XI GENERAL

Giving of notices

- 58 Any notice required to be given to a member or an affiliate member of the Institute in terms of the Act and these by-laws and the rules may be sent by post in a prepaid letter addressed to the member at his or her registered address and the notice shall be deemed to have been served at the time when the letter is posted.

[substituted by S.I.. 43 of 2002 with effect from 15th March, 2002.]

Registered Address

- 59 Every member and affiliate member of the Institute shall give the registrar written notice of the address which is to be regarded as his or her registered address.

[amended by S.I.. 43 of 2002 with effect from 15th March, 2002.]

Indemnification of members of Council and registrar

- 60 Members of the Council and the registrar shall be indemnified by the Institute from losses and expense incurred by them in or about the discharge of their duties except those resulting from their own individual wilful default.

Validity of decisions and acts of Council

- 61 No decision or act of the Council or act done under the authority of the Council shall be invalid by reason only of the fact that—
- (a) the council consisted of less than the number of persons required by subsection (1) of section 3; or
 - (b) a disqualified person acted as a member at the time the decision was taken or the act was done or authorised;

if the decision was taken or the act done or authorised by a majority vote of the persons who at the time was entitled to act as members.

Repeals and savings

- 62 (1) Subject to this section, the by-laws specified in the Second Schedule are repealed.
- (2) Any person who, immediately before the coming into operation of these by-laws was—

-
- (a) a member of the Council shall continue to hold office as a member for the remainder of the period for which he was elected or appointed to the Council as if he had been elected or appointed in terms of these by-laws;
 - (b) registered as a chartered accountant shall be deemed to have been registered in terms of these by-laws;
 - (c) serving as an articled clerk shall continue to serve his articles as if he had commenced serving the articles in terms of these by-laws.
- (3) Any certificate issued in terms of the repealed by-laws shall remain in force and shall, subject to these by-laws, be deemed to have been issued in terms of these by-laws.
 - (4) The address of any member which was given or deemed to have been given in terms of the repealed by-laws shall be deemed to have been given in terms of these by-laws.
 - (5) Any decision, act or other thing whatsoever made, done or commenced which immediately before the coming into operation of these by-laws was capable of acquiring effect shall continue to have or, as the case may be, to be capable of acquiring effect as if it had been made, done or commenced, as the case may be in terms of these by-laws.

FIRST SCHEDULE (Sections 27, 52 and 53) EXAMINATIONS

1. *Qualifying Examinations*

The qualifying examination referred to in sections 27, 52 and 53 shall, in the case of a person who is engaged as a student accountant or has completed either of the periods prescribed in subsection (2) of section 43, as may be appropriate, consists of papers having an aggregate duration of at least twelve hours, based on a syllabus determined by the Council from time to time.

2. *Entry Qualifications*

A candidate shall not be eligible to sit the qualifying examination referred to in paragraph 1 unless he or she has satisfied the Council that he or she has obtained one or more of the following qualifications—

- (a) the postgraduate diploma in applied accountancy of the University of Zimbabwe with each part of the diploma passed within one academic year; or
- (b) the certificate in Theory of Accountancy of the University of South Africa with each Part of the certificate passed within one academic year, together with a pass in such examination as the Council may determine for the purpose of testing his or her knowledge of taxation in Zimbabwe; or
- (c) any other qualification specifically identified by the Council as being of a standard equivalent to or higher than the qualifications referred to in subparagraph (a) or (b).

3. *Conversion Examinations*

The conversion examinations referred to in section 27 shall consist of such examinations as the Council may determine to be necessary for the purpose of testing the applicant's knowledge of taxation in, and the laws of, Zimbabwe.

SECOND SCHEDULE (Section 62) REPEALS

<i>Title</i>	<i>Statutory Instrument</i>
Accountant By-laws	130 of 1982
Accountants (Amendment) By-laws, 1982 (No. 1)	678 of 1982
Accountants (Amendment) By-laws, 1985 (No. 2)	11 of 1985
Accountants (Amendment) By-laws, 1985 (No. 3)	108 of 1985
Accountants (Amendment) By-laws, 1991 (No. 4)	338 of 1991



ETHICS

ICAZ adopted the Code of ethics for professional Accountants produced by IFAC in June 2005 and revised in July 2006. This code is reproduced below, with the permission of IFAC.

International Ethics Standards Board for Accountants

Code of Ethics for Professional Accountants

This Code of Ethics for Professional Accountants was prepared by the International Ethics Standards Board for Accountants (“IESBA”), an independent standard-setting body within the International Federation of Accountants (IFAC). The IESBA develops and issues in the public interest high-quality ethical standards and other pronouncements for professional accountants for use around the world. It encourages member bodies to adopt high standards of ethics for their members and promotes good ethical practices globally. The IESBA also fosters international debate on ethical issues faced by accountants.

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PREFACE

The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession’s expertise is most relevant.” In pursuing this mission, the IFAC Board has established the Ethics Standards Board for Accountants to develop and issue, under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world.

This *Code of Ethics for Professional Accountants* establishes ethical requirements for professional accountants. A member body of IFAC or firm may not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts of this Code.

Some jurisdictions may have requirements and guidance that differs from this Code. Professional accountants should be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.

PART A—GENERAL APPLICATION OF THE CODE

SECTION 100

Introduction and Fundamental Principles

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a **professional accountant’s*** responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant should observe and comply with the ethical requirements of this Code.
- 100.2 This Code is in three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles. Professional accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are other than **clearly insignificant*** to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.
- 100.3 Parts B and C illustrate how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental

principles and also provides examples of situations where safeguards are not available to address the threats and consequently the activity or relationship creating the threats should be avoided. Part B applies to **professional accountants in public practice.*** Part C applies to **professional accountants in business.*** Professional accountants in public practice may also find the guidance in Part C relevant to their particular circumstances.

Fundamental Principles

100.4 A professional accountant is required to comply with the following fundamental principles:

(a) *Integrity*

A professional accountant should be straightforward and honest in all professional and business relationships.

(b) *Objectivity*

A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) *Professional Competence and Due Care*

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

(d) *Confidentiality*

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

(e) *Professional Behavior*

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

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

* See Definitions.

Conceptual Framework Approach

- 100.5 The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This Code provides a framework to assist a professional accountant to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, a professional accountant should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.
- 100.6 A professional accountant has an obligation to evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.7 A professional accountant should take qualitative as well as quantitative factors into account when considering the significance of a threat. If a professional accountant cannot implement appropriate safeguards, the professional accountant should decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).
- 100.8 A professional accountant may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 100.9 Parts B and C of this Code include examples that are intended to illustrate how the conceptual framework is to be applied. The examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant that may create threats to compliance with the fundamental principles.

* See Definitions.

Consequently, it is not sufficient for a professional accountant merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances encountered by the professional accountant.

Threats and Safeguards

- 100.10 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self-interest threats, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or **close family*** member;
 - (b) Self-review threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;
 - (c) Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;
 - (d) Familiarity threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and
 - (e) Intimidation threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

Parts B and C of this Code, respectively, provide examples of circumstances that may create these categories of threats for professional accountants in public practice and professional accountants in business. Professional accountants in public practice may also find the guidance in Part C relevant to their particular circumstances.

- 100.11 Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
 - (b) Safeguards in the work environment.
- 100.12 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

Educational, training and experience requirements for entry into the profession.

Continuing professional development requirements.

Corporate governance regulations.

Professional standards.

Professional or regulatory monitoring and disciplinary procedures.

External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

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

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

Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.

An explicitly stated duty to report breaches of ethical requirements.

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

Ethical Conflict Resolution

100.16 In evaluating compliance with the fundamental principles, a professional accountant may be required to resolve a conflict in the application of fundamental principles.

100.17 When initiating either a formal or informal conflict resolution process, a professional accountant should consider the following, either individually or together with others, as part of the resolution process:

(a) Relevant facts;

(b) Ethical issues involved;

(c) Fundamental principles related to the matter in question;

(d) Established internal procedures; and

(e) Alternative courses of action.

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

100.18 Where a matter involves a conflict with, or within, an organization, a professional accountant should also consider consulting with those charged with governance of the organization, such as the board of directors or the audit committee.

100.19 It may be in the best interests of the professional accountant to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.

100.20 If a significant conflict cannot be resolved, a professional accountant may wish to obtain professional advice from the relevant professional body or legal advisors, and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant should consider obtaining legal advice to determine whether there is a requirement to report.

100.21 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant should, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant may determine that, in the circumstances, it is appropriate to withdraw from the **engagement team*** or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

SECTION 110

Integrity

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

110.2 A professional accountant should not be associated with reports, returns, communications or other information where they believe that the information:

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

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

SECTION 120

Objectivity

- 120.1 The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.
- 120.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgment of the professional accountant should be avoided.

SECTION 130

Professional Competence and Due Care

- 130.1 The principle of professional competence and due care imposes the following obligations on professional accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
 - (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.
- 130.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:
- (a) Attainment of professional competence; and
 - (b) Maintenance of professional competence.
- 130.3 The maintenance of professional competence requires a continuing

awareness and an understanding of relevant technical professional and business developments. Continuing professional development develops and maintains the capabilities that enable a professional accountant to perform competently within the professional environments.

- 130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- 130.5 A professional accountant should take steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.
- 130.6 Where appropriate, a professional accountant should make clients, employers or other users of the professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

SECTION 140

Confidentiality

- 140.1 The principle of confidentiality imposes an obligation on professional accountants to refrain from:
- (a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
 - (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- 140.2 A professional accountant should maintain confidentiality even in a social environment. The professional accountant should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or **immediate family*** member.
- 140.3 A professional accountant should also maintain confidentiality of information disclosed by a prospective client or employer.
- 140.4 A professional accountant should also consider the need to maintain confidentiality of information within the firm or employing organization.

- 140.5 A professional accountant should take all reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.
- 140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer. When a professional accountant changes employment or acquires a new client, the professional accountant is entitled to use prior experience. The professional accountant should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.
- 140.7 The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:
- (a) Disclosure is permitted by law and is authorized by the client or the employer;
 - (b) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
 - (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a member body or professional body;
 - (ii) To respond to an inquiry or investigation by a member body or regulatory body;
 - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
 - (iv) To comply with technical standards and ethics requirements.
- 140.8 In deciding whether to disclose confidential information, professional accountants should consider the following points:
- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant;

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- (b) Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any; and
 - (c) The type of communication that is expected and to whom it is addressed; in particular, professional accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

SECTION 150

Professional Behavior

- 150.1 The principle of professional behavior imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affects the good reputation of the profession.
- 150.2 In marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute. Professional accountants should be honest and truthful and should not:
 - (a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
 - (b) Make disparaging references or unsubstantiated comparisons to the work of others.

PART B—PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 200

Introduction

- 200.1 This Part of the Code illustrates how the conceptual framework contained in Part A is to be applied by professional accountants in public practice. The examples in the following sections are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant in public practice that may create threats to compliance with the principles. Consequently, it is not sufficient for a professional accountant in public practice merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances faced.
- 200.2 A professional accountant in public practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of professional services.

Threats and Safeguards

- 200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self-interest;
 - (b) Self-review;
 - (c) Advocacy;
 - (d) Familiarity; and
 - (e) Intimidation.

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

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

- 200.4 Examples of circumstances that may create self-interest threats for a professional accountant in public practice include, but are not limited to:
- A **financial interest*** in a client or jointly holding a financial interest with a client.

- Undue dependence on total fees from a client.
 - Having a close business relationship with a client.
 - Concern about the possibility of losing a client.
 - Potential employment with a client.
 - **Contingent fees*** relating to an **assurance engagement.***
 - A loan to or from an assurance client or any of its directors or officers.
- 200.5 Examples of circumstances that may create self-review threats include, but are not limited to:
- The discovery of a significant error during a re-evaluation of the work of the professional accountant in public practice.
 - Reporting on the operation of financial systems after being involved in their design or implementation.
 - Having prepared the original data used to generate records that are the subject matter of the engagement.
 - A member of the **assurance team*** being, or having recently been, a **director or officer*** of that client.
 - A member of the assurance team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.
 - Performing a service for a client that directly affects the subject matter of the assurance engagement.
- 200.6 Examples of circumstances that may create advocacy threats include, but are not limited to:
- Promoting shares in a **listed entity*** when that entity is a financial statement audit client.
 - Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.
- 200.7 Examples of circumstances that may create familiarity threats include, but are not limited to:
- A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
 - A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
 - A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
 - Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
 - Long association of senior personnel with the assurance client.
- 200.8 Examples of circumstances that may create intimidation threats include, but are not limited to:
- Being threatened with dismissal or replacement in relation to a client

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- engagement.
 - Being threatened with litigation.
 - Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- 200.9 A professional accountant in public practice may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, a professional accountant in public practice should always be on the alert for such circumstances and threats.
- 200.10 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
 - (b) Safeguards in the work environment.
- Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.12 of Part A of this Code.
- 200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement specific safeguards. A professional accountant in public practice should exercise judgment to determine how to best deal with an identified threat. In exercising this judgment a professional accountant in public practice should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.
- 200.12 Firm-wide safeguards in the work environment may include:
- Leadership of the firm that stresses the importance of compliance with the fundamental principles.
 - Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest.
 - Policies and procedures to implement and monitor quality control of engagements.
 - Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level.

* See Definitions.

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

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

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

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- Rotating senior assurance team personnel.
- 200.14 Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.
- 200.15 Safeguards within the client's systems and procedures may include:
- When a client appoints a firm in public practice to perform an engagement, persons other than management ratify or approve the appointment.
 - The client has competent employees with experience and seniority to make managerial decisions.
 - The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
 - The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

SECTION 210

Professional Appointment

Client Acceptance

- 210.1 Before accepting a new client relationship, a professional accountant in public practice should consider whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management and activities).
- 210.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.
- 210.3 The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 210.4 Appropriate safeguards may include obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.

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- 210.5 Where it is not possible to reduce the threats to an acceptable level, a professional accountant in public practice should decline to enter into the client relationship.
- 210.6 Acceptance decisions should be periodically reviewed for recurring client engagements.

Engagement Acceptance

- 210.7 A professional accountant in public practice should agree to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice should consider whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.
- 210.8 A professional accountant in public practice should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:
- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
 - Acquiring knowledge of relevant industries or subject matters.
 - Possessing or obtaining experience with relevant regulatory or reporting requirements.
 - Assigning sufficient staff with the necessary competencies.
 - Using experts where necessary.
 - Agreeing on a realistic time frame for the performance of the engagement.
 - Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.
- 210.9 When a professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice should evaluate whether such reliance is warranted. The professional accountant in public practice should consider factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

- 210.10 A professional accountant in public practice who is asked to replace another professional accountant in public practice, or who is considering tendering for an engagement currently held by another professional accountant in public practice, should determine whether there are any reasons, professional or other, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. For example, there may be a threat to professional competence and due care if a professional accountant in public practice accepts the engagement before knowing all the pertinent facts.
- 210.11 The significance of the threats should be evaluated. Depending on the nature of the engagement, this may require direct communication with the **existing accountant*** to establish the facts and circumstances behind the proposed change so that the professional accountant in public practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision as to whether to accept the appointment.
- 210.12 An existing accountant is bound by confidentiality. The extent to which the professional accountant in public practice can and should discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:
- (a) Whether the client's permission to do so has been obtained; or
 - (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.
- 210.13 In the absence of specific instructions by the client, an existing accountant should not ordinarily volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of this Code.
- 210.14 If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 210.15 Such safeguards may include:
- Discussing the client's affairs fully and freely with the existing accountant.
 - Asking the existing accountant to provide known information on any facts or circumstances that, in the existing accountant's

opinion, the proposed accountant should be aware of before deciding whether to accept the engagement.

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

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

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

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

SECTION 220

Conflicts of Interest

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

are in dispute with each other in relation to the matter or transaction in question.

- 220.2 A professional accountant in public practice should evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether the professional accountant in public practice has any business interests, or relationships with the client or a third party that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 220.3 Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily include the professional accountant in public practice:
- (a) Notifying the client of the firm's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances; or
 - (b) Notifying all known relevant parties that the professional accountant in public practice is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act; or
 - (c) Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.
- 220.4 The following additional safeguards should also be considered:
- (a) The use of separate engagement teams; and
 - (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing); and
 - (c) Clear guidelines for members of the engagement team on issues of security and confidentiality; and
 - (d) The use of confidentiality agreements signed by employees and partners of the firm; and
 - (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.

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- 220.5 Where a conflict of interest poses a threat to one or more of the fundamental principles, including objectivity, confidentiality or professional behavior, that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the professional accountant in public practice should conclude that it is not appropriate to accept a specific engagement or that resignation from one or more conflicting engagements is required.
- 220.6 Where a professional accountant in public practice has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, then the professional accountant in public practice must not continue to act for one of the parties in the matter giving rise to the conflict of interest.

SECTION 230

Second Opinions

- 230.1 Situations where a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 230.2 When asked to provide such an opinion, a professional accountant in public practice should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.
- 230.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, a professional accountant in public practice should consider whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.
Contingent fees for non-assurance services provided to assurance clients are discussed in Section 290 of this part of the Code.

SECTION 240

Fees and Other Types of Remuneration

- 240.1 When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee deemed to be appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.
- 240.2 The significance of such threats will depend on factors such as the level of fee quoted and the services to which it applies. In view of these potential threats, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards which may be adopted include:
- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
 - Assigning appropriate time and qualified staff to the task.
- 240.3 Contingent fees are widely used for certain types of non-assurance engagements.¹ They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. They may give rise to a self-interest threat to objectivity. The significance of such threats will depend on factors including:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis for determining the fee.
 - Whether the outcome or result of the transaction is to be reviewed by an independent third party.
- 240.4 The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:
- An advance written agreement with the client as to the basis of remuneration.
 - Disclosure to intended users of the work performed by the professional accountant in public practice and the basis of remuneration.
 - Quality control policies and procedures.
 - Review by an objective third party of the work performed by the professional accountant in public practice.

- 240.5 In certain circumstances, a professional accountant in public practice may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice or other expert. A professional accountant in public practice may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission may give rise to self-interest threats to objectivity and professional competence and due care.
- 240.6 A professional accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee may also create a self-interest threat to objectivity and professional competence and due care.
- 240.7 A professional accountant in public practice should not pay or receive a referral fee or commission, unless the professional accountant in public practice has established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:
- Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred.
 - Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice.
 - Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.
- 240.8 A professional accountant in public practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraph 240.5–240.7 above.

SECTION 250

Marketing Professional Services

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

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

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

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

SECTION 260

Gifts and Hospitality

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

260.2 The significance of such threats will depend on the nature, value and intent behind the offer. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider clearly insignificant are made a professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice may generally conclude that there is no significant threat to compliance with the fundamental principles.

260.3 If evaluated threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice should not accept such an offer.

SECTION 270

Custody of Client Assets

- 270.1 A professional accountant in public practice should not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a professional accountant in public practice holding such assets.
- 270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behavior and may be a self interest threat to objectivity arising from holding client assets. To safeguard against such threats, a professional accountant in public practice entrusted with money (or other assets) belonging to others should:
- (a) Keep such assets separately from personal or firm assets; and
 - (b) Use such assets only for the purpose for which they are intended; and
 - (c) At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting; and
 - (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.
- 270.3 In addition, professional accountants in public practice should be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were found to derive from illegal activities, such as money laundering. As part of client and engagement acceptance procedures for such services, professional accountants in public practice should make appropriate inquiries about the source of such assets and should consider their legal and regulatory obligations. They may also consider seeking legal advice.

SECTION 280

Objectivity—All Services

- 280.1 A professional accountant in public practice should consider when providing any professional service whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or directors, officers or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.

- 280.2 A professional accountant in public practice who provides an assurance service is required to be independent of the assurance client. Independence of mind and in appearance is necessary to enable the professional accountant in public practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others. Section 290 provides specific guidance on independence requirements for professional accountants in public practice when performing an assurance engagement.
- 280.3 The existence of threats to objectivity when providing any professional service will depend upon the particular circumstances of the engagement and the nature of the work that the professional accountant in public practice is performing.
- 280.4 A professional accountant in public practice should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:
- Withdrawing from the engagement team.
 - Supervisory procedures.
 - Terminating the financial or business relationship giving rise to the threat.
 - Discussing the issue with higher levels of management within the firm.
 - Discussing the issue with those charged with governance of the client.

SECTION 290

Independence—Assurance Engagements

- 290.1 In the case of an assurance engagement it is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams**,* firms and, when applicable, **network firms*** be independent of assurance clients.
- 290.2 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance Engagements (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. For a description of the elements and objectives of an assurance engagement reference should be made to the Assurance Framework.

- 290.3 As further explained in the Assurance Framework, in an assurance engagement the professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
- 290.4 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of subject matter. For example:
- The recognition, measurement, presentation and disclosure represented in the financial statements* (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards, (criteria) to an entity’s financial position, financial performance and cash flows (subject matter).
 - An assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO or CoCo, (criteria) to internal control, a process (subject matter).
- 290.5 Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a public accountant in public practice, a responsible party and intended users.
- 290.6 In an assertion-based assurance engagement, which includes a **financial statement audit engagement**,* the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 290.7 In a direct reporting assurance engagement the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.
- 290.8 Independence requires:

Independence of Mind

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

Independence in Appearance

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

- 290.9 The use of the word "independence" on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.
- 290.10 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

A Conceptual Approach to Independence

- 290.11 Members of assurance teams, firms and network firms are required to apply the conceptual framework contained in Section 100 to the particular circumstances under consideration. In addition to identifying relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence. Paragraphs 290.14-290.26, which were issued in July 2006, apply to assurance engagements when the assurance report is dated on or after December 31, 2008.
- 290.12 The examples presented in this section are intended to illustrate the application of the conceptual framework and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it is not sufficient for a member of an assurance team, a firm or a network firm merely

to comply with the examples presented, rather they should apply the framework to the particular circumstances they face.

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

Networks and Network Firms²

- 290.14 An entity that belongs to a network might be a firm, which is defined in this Code as a sole practitioner, partnership or corporation of professional accountants and an entity that controls or is controlled by such parties, or the entity might be another type of entity, such as a consulting practice or a professional law practice. The independence requirements in this section that apply to a network firm apply to any entity that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.
- 290.15 If a firm is considered to be a network firm, the firm is required to be independent of the financial statement audit clients of the other firms within the network. In addition, for assurance clients that are not financial statement audit clients, consideration should be given to any threats the firm has reason to believe may be created by financial interests in the client held by other entities in the network or by relationships between the client and other entities in the network.
- 290.16 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends upon the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is considered to be a network.
- 290.17 The judgment as to whether the larger structure is a network should be made in light of whether a reasonable and informed third party would

be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment should be applied consistently throughout the network.

- 290.18 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is considered to be a network. However, the sharing of immaterial costs would not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product would not in itself create a network.
- 290.19 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is considered to be a network. This could be achieved by contract or other means.
- 290.20 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is considered to be a network. For this purpose common quality control policies and procedures would be those designed, implemented and monitored across the larger structure.
- 290.21 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is considered to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not considered to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.
- 290.22 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is considered to be a network. A common brand name includes common initials or a common name. A firm is considered to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an assurance report.
- 290.23 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, a firm should carefully consider how it describes any such memberships in order to avoid the perception that it belongs to a network.

- 290.24 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms. Those entities should carefully consider how to disclose that they are not network firms when presenting themselves to outside parties.
- 290.25 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is considered to be a network. Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing, and time records;
 - Partners and staff;
 - Technical departments to consult on technical or industry specific issues, transactions or events for assurance engagements;
 - Audit methodology or audit manuals; and
 - Training courses and facilities.
- 290.26 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, should be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be considered to be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Assertion-Based Assurance Engagements

Financial Statement Audit Engagements

- 290.27 Financial statement audit engagements are relevant to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for financial statement audit clients, the members of the assurance team, the firm and network firms are required to be independent of the financial statement audit client. Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client

in a position to exert direct and significant influence over the subject matter information (the financial statements). Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter (the financial position, financial performance and cash flows).

Other Assertion-Based Assurance Engagements

- 290.28 In an assertion-based assurance engagement where the client is not a financial statement audit client, the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information. Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.
- 290.29 In the majority of assertion-based assurance engagements, that are not financial statement audit engagements, the responsible party is responsible for the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).
- 290.30 In those assertion-based assurance engagements that are not financial statement audit engagements, where the responsible party is responsible for the subject matter information but not the subject matter the members of the assurance team and the firm are required to be independent of the party responsible for the subject matter information (the assurance client). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

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

Restricted Use Reports

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

Multiple Responsible Parties

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

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the firm determines that the threat to independence created by any such interest or relationship with a particular responsible party would be clearly insignificant

it may not be necessary to apply all of the provisions of this section to that responsible party.

Other Considerations

- 290.34 The threats and safeguards identified in this section are generally discussed in the context of interests or relationships between the firm, network firms, members of the assurance team and the assurance client. In the case of a financial statement audit client that is a listed entity, the firm and any network firms are required to consider the interests and relationships that involve that client's related entities. Ideally those entities and the interests and relationships should be identified in advance. For all other assurance clients, when the assurance team has reason to believe that a **related entity*** of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards.
- 290.35 The evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm, a network firm or a member of the assurance team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence. There may be occasions when the firm, a network firm or an individual inadvertently violates this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to an assurance client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 290.36 Throughout this section, reference is made to significant and clearly insignificant threats in the evaluation of independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential.

Objective and Structure of this Section

- 290.37 The objective of this section is to assist firms and members of assurance teams in:
- (a) Identifying threats to independence;
 - (b) Evaluating whether these threats are clearly insignificant; and

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

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

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

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

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

290.41 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities may include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the financial statement audit of listed entities. Consideration

should be given to the application of the framework in relation to the financial statement audit of listed entities to other financial statement audit clients that may be of significant public interest.

- 290.42 Audit committees can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm is independent in carrying out its audit role. There should be regular communications between the firm and the audit committee (or other governance body if there is no audit committee) of listed entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence.
- 290.43 Firms should establish policies and procedures relating to independence communications with audit committees, or others charged with governance of the client. In the case of the financial statement audit of listed entities, the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the financial statement audit client that in the firm's professional judgment may reasonably be thought to bear on independence. Matters to be communicated will vary in each circumstance and should be decided by the firm, but should generally address the relevant matters set out in this section.

Engagement Period

- 290.44 The members of the assurance team and the firm should be independent of the assurance client during the period of the assurance engagement. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.
- 290.45 In the case of a financial statement audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes a financial statement audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by: **CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS 45**
- Financial or business relationships with the audit client during or after the period covered by the financial statements, but prior to the acceptance of the financial statement audit engagement; or
 - Previous services provided to the audit client.

Similarly, in the case of an assurance engagement that is not a financial statement audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence.

290.46 If a non-assurance service was provided to the financial statement audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the financial statement audit and the service would be prohibited during the period of the audit engagement, consideration should be given to the threats to independence, if any, arising from the service. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards may include:

- Discussing independence issues related to the provision of the non-assurance service with those charged with governance of the client, such as the audit committee;
- Obtaining the client's acknowledgement of responsibility for the results of the non-assurance service;
- Precluding personnel who provided the non-assurance service from participating in the financial statement audit engagement; and
- Engaging another firm to review the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

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

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

Application of Framework to Specific Situations

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Introduction

- 290.100 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all inclusive. In practice, the firm, network firms and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12-200.15 can be applied to satisfactorily address the threats to independence.
- 290.101 Some of the examples deal with financial statement audit clients while others deal with assurance engagements for clients that are not financial statement audit clients. The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team, the firm and network firms to be independent of a financial statement audit client, and for the members of the assurance team and the firm to be independent of an assurance client that is not a financial statement audit client. The examples do not include assurance reports to a non-financial statement audit client expressly restricted for use by identified users. As stated in paragraph 290.32 for such engagements, members of the assurance team and their immediate and close family are required to be independent of the assurance client. Further, the firm should not have a material financial interest, direct or indirect, in the assurance client.
- 290.102 The examples illustrate how the framework applies to financial statement audit clients and other assurance clients. The examples should be read in conjunction with paragraph 290.33 which explain that, in the majority of assurance engagements, there is one responsible party and that responsible party comprises the assurance client. However, in some assurance engagements there are two responsible parties. In such circumstances, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.
- 290.103 Interpretation 2005-01 to this section provides further guidance on the application of the independence requirements contained in this section to assurance engagements that are not financial statement audit engagements.

Financial Interests

- 290.104 A financial interest in an assurance client may create a self-interest threat. In evaluating the significance of the threat, and the appropriate

safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, the materiality of the financial interest and the type of financial interest (direct or indirect).

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

Provisions Applicable to all Assurance Clients

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

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

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

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

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

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

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

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

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

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

- 290.110 Consideration should be given to whether a self-interest threat may be created by the financial interests of individuals outside of the assurance team and their immediate and close family members. Such individuals would include:
- Partners, and their immediate family members, who are not members of the assurance team;
 - Partners and managerial employees who provide non-assurance services to the assurance client; and
 - Individuals who have a close personal relationship with a member of the assurance team.

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

- The firm’s organizational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the assurance team.
- The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:
 - Where appropriate, policies to restrict people from holding such interests;
 - Discussing the matter with those charged with governance, such as the audit committee; or
 - Involving an additional professional accountant who did not take part in the assurance engagement to review the work done or otherwise advise as necessary.

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

- (a) The firm, and the network firm, have established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;
- (b) The firm, and the network firm, promptly notify the professional that the financial interest should be disposed of; and
- (c) The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team.

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

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

Provisions Applicable to Financial Statement Audit Clients

- 290.113 If a firm, or a network firm, has a direct financial interest in a financial statement audit client of the firm the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.
- 290.114 If a firm, or a network firm, has a material indirect financial interest in a financial statement audit client of the firm a self-interest threat is also created. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.
- 290.115 If a firm, or a network firm, has a material financial interest in an entity that has a controlling interest in a financial statement audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.
- 290.116 If the retirement benefit plan of a firm, or network firm, has a financial interest in a financial statement audit client a self-interest threat may be created. Accordingly, the significance of any such threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.
- 290.117 If other partners, including partners who do not perform assurance engagements, or their immediate family, in the **office*** in which the **engagement partner*** practices in connection with the financial statement audit hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such partners or their immediate family should not hold any such financial interests in such an audit client.
- 290.118 The office in which the engagement partner practices in connection with the financial statement audit is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner

is located in a different office from that of the other members of the assurance team, judgment should be used to determine in which office the partner practices in connection with that audit.

- 290.119 If other partners and managerial employees who provide non-assurance services to the financial statement audit client, except those whose involvement is clearly insignificant, or their immediate family, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their immediate family should not hold any such financial interests in such an audit client.
- 290.120 A financial interest in a financial statement audit client that is held by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit, or (b) a partner or managerial employee who provides non-assurance services to the audit client is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g., pension rights or share options) and, where necessary, appropriate safeguards are applied to reduce any threat to independence to an acceptable level.
- 290.121 A self-interest threat may be created if the firm, or the network firm, or a member of the assurance team has an interest in an entity and a financial statement audit client, or a director, officer or controlling owner thereof also has an investment in that entity. Independence is not compromised with respect to the audit client if the respective interests of the firm, the network firm, or member of the assurance team, and the audit client, or director, officer or controlling owner thereof are both immaterial and the audit client cannot exercise significant influence over the entity. If an interest is material, to either the firm, the network firm or the audit client, and the audit client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the firm, or the network firm, should either dispose of the interest or decline the audit engagement. Any member of the assurance team with such a material interest should either:
- (a) Dispose of the interest;
 - (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material; or
 - (c) Withdraw from the audit.

Provisions Applicable to Non-Financial Statement Audit Assurance Clients

- 290.122 If a firm has a direct financial interest in an assurance client that is not a financial statement audit client the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.
- 290.123 If a firm has a material indirect financial interest in an assurance client that is not a financial statement audit client a self-interest threat is also created. The only action appropriate to permit the firm to perform the engagement would be for the firm to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.
- 290.124 If a firm has a material financial interest in an entity that has a controlling interest in an assurance client that is not a financial statement audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the firm to perform the engagement would be for the firm either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.
- 290.125 When a restricted use report for an assurance engagement that is not a financial statement audit engagement is issued, exceptions to the provisions in paragraphs 290.106-290.110 and 290.122-290.124 are set out in 290.32.

Loans and Guarantees

- 290.126 A loan, or a guarantee of a loan, to the firm from an assurance client that is a bank or a similar institution, would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements and the loan is immaterial to both the firm and the assurance client. If the loan is material to the assurance client or the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant from outside the firm, or network firm, to review the work performed.
- 290.127 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, to a member of the assurance team or their immediate family would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.
- 290.128 Similarly, deposits made by, or brokerage accounts of, a firm or a

member of the assurance team with an assurance client that is a bank, broker or similar institution would not create a threat to independence provided the deposit or account is held under normal commercial terms.

- 290.129 If the firm, or a member of the assurance team, makes a loan to an assurance client, that is not a bank or similar institution, or guarantees such an assurance client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.
- 290.130 Similarly, if the firm or a member of the assurance team accepts a loan from, or has borrowing guaranteed by, an assurance client that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.
- 290.131 The examples in paragraphs 290.126–290.130 relate to loans and guarantees between the firm and an assurance client. In the case of a financial statement audit engagement, the provisions should be applied to the firm, all network firms and the audit client.

Close Business Relationships with Assurance Clients

- 290.132 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, or between the firm, a network firm and a financial statement audit client, will involve a commercial or common financial interest and may create self-interest and intimidation threats. The following are examples of such relationships:
- Having a material financial interest in a joint venture with the assurance client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.
 - Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.
 - Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the assurance client's products or services, or the assurance client acts as the distributor or marketer of the products or services of the firm. In the case of a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm, the network firm and the audit client, no safeguards could reduce the threat to an acceptable level. In the case of an assurance client that is not a financial statement audit client, unless the financial

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

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

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

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

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

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

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

Family and Personal Relationships

- 290.135 Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on their role, of the assurance client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement, the closeness of the relationship and the role of the family member or other individual within the assurance client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.
- 290.136 When an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement. For example, in the case of an audit of financial statements, if the spouse of a member of the assurance team is an employee in a position to exert direct and significant influence over the preparation of the audit client's accounting records or financial statements, the threat to independence could only be reduced to an acceptable level by removing the individual from the assurance team.
- 290.137 When an immediate family member of a member of the assurance team is an employee in a position to exert direct and significant influence over the subject matter of the engagement, threats to independence may be created. The significance of the threats will depend on factors such as:
- The position the immediate family member holds with the client; and
 - The role of the professional on the assurance team.

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

- Removing the individual from the assurance team;
- Where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the immediate family member; or

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

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

- The role of the professional on the assurance team.

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

- Removing the individual from the assurance team;
- Where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member; or
- Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

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

290.140 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner or employee of the firm who is not a member of the assurance team and a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement. Therefore partners and employees of the firm are responsible for identifying any such relationships and for consulting in accordance

with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the firm professional with the assurance team, the position held within the firm, and the role of the individual within the assurance client.

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

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

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

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

Employment with Assurance Clients

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

engagement knowing, or having reason to believe, that he or she is to, or may, join the assurance client sometime in the future.

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

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

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

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

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

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

290.145 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she is to, or may, join the assurance client

some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

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

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

Recent Service with Assurance Clients

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

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

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

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

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and

applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

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

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

290.149 If a partner or employee of the firm serves as an officer or as a director on the board of an assurance client the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. In the case of a financial statement audit engagement, if a partner or employee of a network firm were to serve as an officer or as a director on the board of the audit client the threats created would be so significant no safeguard could reduce the threats to an acceptable level. Consequently, if such an individual were to accept such a position the only course of action is to refuse to perform, or to withdraw from the assurance engagement.

290.150 The position of Company Secretary has different implications in different jurisdictions. The duties may range from administrative duties such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally this position is seen to imply a close degree of association with the entity and may create self-review and advocacy threats.

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

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

Long Association of Senior Personnel with Assurance Clients

General Provisions

290.153 Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. The significance of

the threat will depend upon factors such as:

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

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

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

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

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

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

290.156 While the engagement partner and the individual responsible for the engagement quality control review should be rotated after such a pre-defined period, some degree of flexibility over timing of rotation may be

necessary in certain circumstances. Examples of such circumstances include:

- Situations when the person's continuity is especially important to the financial statement audit client, for example, when there will be major changes to the audit client's structure that would otherwise coincide with the rotation of the person's; and
- Situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard.

In all such circumstances when the person is not rotated after such a pre-defined period equivalent safeguards should be applied to reduce any threats to an acceptable level.

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

Provision of Non-Assurance Services to Assurance Clients 4

- 290.158 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Assurance clients value the benefits that derive from having these firms, which have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such non-assurance services will often result in the assurance team obtaining information regarding the assurance client's business and operations that is helpful in relation to the assurance engagement. The greater the knowledge of the assurance client's business, the better the assurance team will understand the assurance client's procedures and controls, and the business and financial risks that it faces. The provision of non-assurance services may, however, create threats to the independence of the firm, a network firm or the members of the assurance team, particularly with respect to perceived threats to independence. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level.

- 290.159 The following activities would generally create self-interest or self-review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level:
- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so.
 - Determining which recommendation of the firm should be implemented.
 - Reporting, in a management role, to those charged with governance.

290.160 The examples set out in paragraphs 290.166–290.205 are addressed in the context of the provision of non-assurance services to an assurance client. The potential threats to independence will most frequently arise when a non-assurance service is provided to a financial statement audit client. The financial statements of an entity provide financial information about a broad range of transactions and events that have affected the entity. The subject matter information of other assurance services, however, may be limited in nature. Threats to independence, however, may also arise when a firm provides a non-assurance service related to the subject matter information, of a non-financial statement audit assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter information, of the engagement, whether any self-review threats are created and whether any threats to independence could be reduced to an acceptable level by application of safeguards, or whether the engagement should be declined. When the non-assurance service is not related to the subject matter information, of the non-financial statement audit assurance engagement, the threats to independence will generally be clearly insignificant.

- 290.161 The following activities may also create self-review or self-interest threats:
- Having custody of an assurance client's assets.
 - Supervising assurance client employees in the performance of their normal recurring activities.
 - Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

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

- Making arrangements so that personnel providing such services do not participate in the assurance engagement;

- Involving an additional professional accountant to advise on the potential impact of the activities on the independence of the firm and the assurance team; or
- Other relevant safeguards set out in national regulations.

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

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

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

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

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

Preparing Accounting Records and Financial Statements

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

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

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

290.168 The audit process involves extensive dialogue between the firm and management of the financial statement audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for financial statement audit clients are an appropriate means to promote the fair presentation of the financial statements. The provision of such advice does not generally threaten the firm's independence. Similarly, the financial statement audit process may involve assisting an audit client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, assisting in the preparation of consolidated financial statements (including the translation of local statutory

accounts to comply with group accounting policies and the transition to a different reporting framework such as International Financial Reporting Standards), drafting disclosure items, proposing adjusting journal entries and providing assistance and advice in the preparation of local statutory accounts of subsidiary entities. These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

General Provisions

290.169 The examples in paragraphs 290.170–290.173 indicate that self-review threats may be created if the firm is involved in the preparation of accounting records or financial statements and those financial statements are subsequently the subject matter information of an audit engagement of the firm. This notion may be equally applicable in situations when the subject matter information of the assurance engagement is not financial statements. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this prospective financial information. Consequently, the firm should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat is other than clearly insignificant safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

Financial Statements Audit Clients that are Not Listed Entities

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

- Recording transactions for which the audit client has determined or approved the appropriate account classification;
- Posting coded transactions to the audit client's general ledger;
- Preparing financial statements based on information in the trial balance; and
- Posting the audit client approved entries to the trial balance.

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

Making arrangements so such services are not performed by a member of the assurance team;

Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client;

Requiring the source data for the accounting entries to be originated by the audit client;

Requiring the underlying assumptions to be originated and approved by the audit client; or

Obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.

Financial Statement Audit Clients that are Listed Entities

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

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

- (a) The services do not involve the exercise of judgment.
- (b) The divisions or subsidiaries for which the service is provided are collectively immaterial to the audit client, or the services provided are collectively immaterial to the division or subsidiary.
- (c) The fees to the firm, or network firm, from such services are collectively clearly insignificant.

If such services are provided, all of the following safeguards should be applied:

- (a) The firm, or network firm, should not assume any managerial role nor make any managerial decisions.
- (b) The audit client should accept responsibility for the results of the work.

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- (c) Personnel providing the services should not participate in the audit.

Emergency Situations

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

Valuation Services

- 290.174 A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
- 290.175 A self-review threat may be created when a firm or network firm performs a valuation for a financial statement audit client that is to be incorporated into the client's financial statements.
- 290.176 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such valuation services should not be provided or, alternatively, the only course of action would be to withdraw from the financial statement audit engagement.
- 290.177 Performing valuation services for a financial statement audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may create a self-review threat that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include:
- Involving an additional professional accountant who was not a member of the assurance team to review the work done or

- otherwise advise as necessary;
 - Confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;
 - Obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and
 - Making arrangements so that personnel providing such services do not participate in the audit engagement.
 - In determining whether the above safeguards would be effective, consideration should be given to the following matters:
 - (a) The extent of the audit client's knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment.
 - (b) The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.
 - (c) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.
 - (d) The reliability and extent of the underlying data.
 - (e) The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.
 - (f) The extent and clarity of the disclosures in the financial statements.
- 290.178 When a firm, or a network firm, performs a valuation service for a financial statement audit client for the purposes of making a filing or return to a tax authority, computing an amount of tax due by the client, or for the purpose of tax planning, this would not create a significant threat to independence because such valuations are generally subject to external review, for example by a tax authority.
- 290.179 When the firm performs a valuation that forms part of the subject matter information of an assurance engagement that is not a financial statement audit engagement, the firm should consider any self-review threats. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

Provision of Taxation Services to Financial Statement Audit Clients

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

Provision of Internal Audit Services to Financial Statement Audit Clients

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

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

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

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

290.185 Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:

- (a) The audit client is responsible for internal audit activities and

acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;

- (b) The audit client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
- (c) The audit client, the audit committee or supervisory body approves the scope, risk and frequency of internal audit work;
- (d) The audit client is responsible for evaluating and determining which recommendations of the firm should be implemented;
- (e) The audit client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining and acting on reports from the firm; and
- (f) The findings and recommendations resulting from the internal audit activities are reported appropriately to the audit committee or supervisory body.

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

Provision of IT Systems Services to Financial Statement Audit Clients

290.187 The provision of services by a firm or network firm to a financial statement audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may create a self-review threat.

290.188 The self-review threat is likely to be too significant to allow the provision of such services to a financial statement audit client unless appropriate safeguards are put in place ensuring that:

- (a) The audit client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The audit client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system;
- (c) The audit client makes all management decisions with respect to the design and implementation process;

- (d) The audit client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

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

290.190 The provision of services by a firm, or network firm, to a financial statement audit client which involve either the design or the implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may also create a self-review threat. The significance of the threat, if any, should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

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

Temporary Staff Assignments to Financial Statement Audit Clients

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

- (a) Making management decisions;
- (b) Approving or signing agreements or other similar documents; or
- (c) Exercising discretionary authority to commit the client.

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

- The staff providing the assistance should not be given audit responsibility for any function or activity that they performed or supervised during their temporary staff assignment; and

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- The audit client should acknowledge its responsibility for directing and supervising the activities of firm, or network firm, personnel.

Provision of Litigation Support Services to Financial Statement Audit Clients

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

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

- The materiality of the amounts involved;
- The degree of subjectivity inherent in the matter concerned; and
- The nature of the engagement.

The firm, or network firm, should evaluate the significance of any threat created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

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

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

Provision of Legal Services to Financial Statement Audit Clients

290.196 Legal services are defined as any services for which the person providing the services must either be admitted to practice before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law. Legal services encompass a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition advice and support and the provision of assistance to clients' internal legal departments. The

provision of legal services by a firm, or network firm, to an entity that is a financial statement audit client may create both self-review and advocacy threats.

- 290.197 Threats to independence need to be considered depending on the nature of the service to be provided, whether the service provider is separate from the assurance team and the materiality of any matter in relation to the entities' financial statements. The safeguards set out in paragraph 290.162 may be appropriate in reducing any threats to independence to an acceptable level. In circumstances when the threat to independence cannot be reduced to an acceptable level the only available action is to decline to provide such services or withdraw from the financial statement audit engagement.
- 290.198 The provision of legal services to a financial statement audit client which involve matters that would not be expected to have a material effect on the financial statements are not considered to create an unacceptable threat to independence.
- 290.199 There is a distinction between advocacy and advice. Legal services to support a financial statement audit client in the execution of a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Such a service would not generally impair independence, provided that:
- (a) Members of the assurance team are not involved in providing the service; and
 - (b) In relation to the advice provided, the audit client makes the ultimate decision or, in relation to the transactions, the service involves the execution of what has been decided by the audit client.
- 290.200 Acting for a financial statement audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the audit client would create advocacy and self-review threats so significant no safeguard could reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for a financial statement audit client.
- 290.201 When a firm is asked to act in an advocacy role for a financial statement audit client in the resolution of a dispute or litigation in circumstances when the amounts involved are not material to the financial statements of the audit client, the firm should evaluate the significance of any advocacy and self-review threats created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as

necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client; or
- Using professionals who are not members of the assurance team to perform the service.

290.202 The appointment of a partner or an employee of the firm or network firm as General Counsel for legal affairs to a financial statement audit client would create self-review and advocacy threats that are so significant no safeguards could reduce the threats to an acceptable level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company and consequently, no member of the firm or network firm should accept such an appointment for a financial statement audit client.

Recruiting Senior Management

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

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

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

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

Corporate Finance and Similar Activities

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

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

- 290.205 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include:
- Policies and procedures to prohibit individuals assisting the assurance client from making managerial decisions on behalf of the client;
 - Using professionals who are not members of the assurance team to provide the services; and
 - Ensuring the firm does not commit the assurance client to the terms of any transaction or consummate a transaction on behalf of the client.

Fees and Pricing

Fees—Relative Size

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

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

- Discussing the extent and nature of fees charged with the audit committee, or others charged with governance;
 - Taking steps to reduce dependency on the client;
 - External quality control reviews; and
 - Consulting a third party, such as a professional regulatory body or another professional accountant.
- 290.207 A self-interest threat may also be created when the fees generated by the assurance client represent a large proportion of the revenue of an

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

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

Fees—Overdue

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

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

The firm should also consider whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed.

Pricing

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

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

Contingent Fees

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

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

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

For other types of contingent fee arrangements, the significance of the threats created will depend on factors such as:

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

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

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

Gifts and Hospitality

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

Actual or Threatened Litigation

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

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

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

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

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

Section 290 Interpretations

These interpretations are directed towards the application of the IFAC Code of Ethics for Professional Accountants to the topics of the specific queries received. Those subject to the regulations of other authoritative bodies, such as the US Securities and Exchange Commission, may wish to consult with them for their positions on these matters.

Interpretation 2003-01

The Provision of Non-Assurance Services to Assurance Clients

The Code of Ethics for Professional Accountants addresses the issue of the provision of non assurance services to assurance clients in paragraphs 290.158–290.205

inclusive. The Code does not currently include any transitional provisions relating to the requirements set out in these paragraphs however the Ethics Committee⁵ has concluded that it is appropriate to allow a transitional period of one year, during which existing contracts to provide non assurance services for assurance clients may be completed if additional safeguards are put in place to reduce any threat to independence to an insignificant level. This transitional period commences on December 31, 2004 (or from the date of implementation of the Code for members of those IFAC member bodies which have adopted an earlier implementation date).

Interpretation 2003-02

Lead Engagement Partner Rotation for Audit Clients that are Listed Entities

The Code of Ethics for Professional Accountants addresses the issue of engagement partner rotation for financial statement audit clients that are listed entities in paragraphs 290.154–290.157.

The paragraphs state that in the financial statement audit of a listed entity the engagement partner should be rotated after serving in that capacity for a pre-defined period, normally no more than seven years. They also state that some degree of flexibility in timing of rotation may be necessary in certain circumstances. The Ethics Committee⁶ believes that the implementation (or early adoption) of the Code constitutes an example of a circumstance in which some degree of flexibility over timing of rotation may be necessary.

The Code does not currently include any transitional provisions relating to these requirements. However, the Ethics Committee⁷ has concluded that it is appropriate to allow a transitional period of two years. Consequently, on implementation or early adoption of the Code, while the length of time the engagement partner has served the financial statement audit client in that capacity should be considered in determining when rotation should occur, the partner may continue to serve as the engagement partner for two additional years from the date of implementation (or early adoption) before rotating off the engagement. In such circumstances, the additional requirements of paragraph 290.157 to apply equivalent safeguards in order to reduce any threats to an acceptable level should be followed.

Interpretation 2005-01

Application of Section 290 to Assurance Engagements that are Not Financial Statement Audit Engagements

This interpretation provides guidance on the application of the independence requirements contained in Section 290 to assurance engagements that are not financial statement audit engagements.

This interpretation focuses on the application issues that are particular to assurance engagements that are not financial statement audit engagements. There are other

matters noted in Section 290 that are relevant in the consideration of independence requirements for all assurance engagements. For example, paragraph 290.28 states that consideration should be given to any threats the firm has reason to believe may be created by network firms' interests and relationships. Similarly, paragraph 290.34 states that for assurance clients, that are other than listed entity financial statement audit clients, when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board, in an assurance engagement, the professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Assertion-Based Assurance Engagements

In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In an assertion-based assurance engagement independence is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

In those assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, independence is required from the responsible party. In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

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

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

Multiple Responsible Parties

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

In such engagements, when determining whether it is necessary to apply the provisions in Section 290 to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is other than clearly insignificant in the context of the subject matter information. This will take into account:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest that is associated with the engagement.

If the firm determines that the threat to independence created by any such relationships with a particular responsible party would be clearly insignificant it may not be necessary to apply all of the provisions of this section to that responsible party.

Example

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

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

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

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

The engagement could be structured in differing ways:

Assertion-Based Engagements

- A1 Each company measures its reserves and provides an assertion to the firm and to intended users.
- A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

Direct Reporting Engagements

- D1 Each company measures the reserves and provides the firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.
- D2 The firm directly measures the reserves of some of the companies.

Application of Approach

- A1 Each company measures its reserves and provides an assertion to the firm and to intended users.
There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is other than clearly insignificant. This will take into account factors such as:
 - The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
 - The degree of public interest associated with the engagement. (Paragraph 290.33.)

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

a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties which would be considered to be the assurance client (paragraph 290.33).

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

The firm would be required to be independent of the entity that measures the reserves and provides an assertion to the firm and to intended users (paragraph 290.30). That entity is not responsible for the subject matter and so consideration should be given to any threats the firm has reason to believe may be created by interests/relationships with the party responsible for the subject matter (paragraph 290.30). There are several parties responsible for subject matter in this engagement (Companies 1-10) As discussed in example A1 above, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is other than clearly insignificant.

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

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

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (paragraph 290.33).

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

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties which would be considered to be the assurance client (paragraph 290.33).

- D2 The firm directly measures the reserves of some of the companies. The application is the same as in example D1.

PART C—PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 300

Introduction

- 300.1 This Part of the Code illustrates how the conceptual framework contained in Part A is to be applied by professional accountants in business.
- 300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 300.3 A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organization. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.
- 300.4 A professional accountant in business has a responsibility to further the legitimate aims of their employing organization. This Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but considers circumstances in which conflicts may be created with the absolute duty to comply with the fundamental principles.
- 300.5 A professional accountant in business often holds a senior position within an organization. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior.
- 300.6 The examples presented in the following sections are intended to illustrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant in business that may create threats to compliance with the principles. Consequently, it is not sufficient for a professional accountant in business merely to comply with the examples; rather, the framework should be applied to the particular circumstances faced.

Threats and Safeguards

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

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

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

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

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

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

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

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

- A professional accountant in business in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
- Long association with business contacts influencing business decisions.
- Acceptance of a gift or preferential treatment, unless the value is clearly insignificant.

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

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

- 300.13 Professional accountants in business may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In all professional and business relationships, professional accountants in business should always be on the alert for such circumstances and threats.
- 300.14 Safeguards that may eliminate or reduce to an acceptable level the threats faced by professional accountants in business fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
 - (b) Safeguards in the work environment.
- 300.15 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.12 of Part A of this Code.
- 300.16 Safeguards in the work environment include, but are not restricted to:
- The employing organization's systems of corporate oversight or other oversight structures.
 - The employing organization's ethics and conduct programs.
 - Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
 - Strong internal controls.
 - Appropriate disciplinary processes.
 - Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
 - Policies and procedures to implement and monitor the quality of employee performance.
 - Timely communication of the employing organization's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
 - Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.
 - Consultation with another appropriate professional accountant.

In circumstances where a professional accountant in business believes that unethical behavior or actions by others will continue to occur within the employing organization, the professional accountant in business should consider seeking legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant in business may conclude that it is appropriate to resign from the employing organization.

SECTION 310

Potential Conflicts

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

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

- Act contrary to law or regulation.
- Act contrary to technical or professional standards.
- Facilitate unethical or illegal earnings management strategies.
- Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:

The auditors of the employing organization; or

- Regulators.
- Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:
 - The financial statements;
 - Tax compliance;
 - Legal compliance; or
 - Reports required by securities regulators.

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

- Obtaining advice where appropriate from within the employing organization, an independent professional advisor or a relevant professional body.

- The existence of a formal dispute resolution process within the employing organization.
- Seeking legal advice.

SECTION 320

Preparation and Reporting of Information

- 320.1 Professional accountants in business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. A professional accountant in business should prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.
- 320.2 A professional accountant in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organization should ensure that those financial statements are presented in accordance with the applicable financial reporting standards.
- 320.3 A professional accountant in business should maintain information for which the professional accountant in business is responsible in a manner that:
- (a) Describes clearly the true nature of business transactions, assets or liabilities;
 - (b) Classifies and records information in a timely and proper manner; and
 - (c) Represents the facts accurately and completely in all material respects.
- 320.4 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may be created where a professional accountant in business may be pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.
- 320.5 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include consultation with superiors within the employing organization, for example, the audit

committee or other body responsible for governance, or with a relevant professional body.

- 320.6 Where it is not possible to reduce the threat to an acceptable level, a professional accountant in business should refuse to remain associated with information they consider is or may be misleading. Should the professional accountant in business be aware that the issuance of misleading information is either significant or persistent, the professional accountant in business should consider informing appropriate authorities in line with the guidance in Section 140. The professional accountant in business may also wish to seek legal advice or resign.

SECTION 330

Acting with Sufficient Expertise

- 330.1 The fundamental principle of professional competence and due care requires that a professional accountant in business should only undertake significant tasks for which the professional accountant in business has, or can obtain, sufficient specific training or experience. A professional accountant in business should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should a professional accountant in business fail to seek appropriate expert advice and assistance when required.
- 330.2 Circumstances that threaten the ability of a professional accountant in business to perform duties with the appropriate degree of professional competence and due care include:
- Insufficient time for properly performing or completing the relevant duties.
 - Incomplete, restricted or otherwise inadequate information for performing the duties properly.
 - Insufficient experience, training and/or education.
 - Inadequate resources for the proper performance of the duties.
- 330.3 The significance of such threats will depend on factors such as the extent to which the professional accountant in business is working with others, relative seniority in the business and the level of supervision and review applied to the work. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards that may be considered include:
- Obtaining additional advice or training.
 - Ensuring that there is adequate time available for performing the relevant duties.

- Obtaining assistance from someone with the necessary expertise.
- Consulting, where appropriate, with:
- Superiors within the employing organization;
- Independent experts; or
- A relevant professional body.

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

SECTION 340

Financial Interests

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

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the professional accountant in business;
- Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant in business;
- Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant in business;
- Holds, directly or indirectly, share options in the employing organization which are, or will soon be, eligible for conversion; or
- May qualify for share options in the employing organization or performance related bonuses if certain targets are achieved.

340.2 In evaluating the significance of such a threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, professional accountants in business must examine the nature of the financial interest. This includes an evaluation of the significance of the financial interest and whether it is direct or indirect. Clearly, what constitutes a significant or valuable stake in

an organization will vary from individual to individual, depending on personal circumstances.

- 340.3 If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:
- Policies and procedures for a committee independent of management to determine the level of form of remuneration of senior management.
 - Disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organization, in accordance with any internal policies.
 - Consultation, where appropriate, with superiors within the employing organization.
 - Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
 - Internal and external audit procedures.
 - Up-to-date education on ethical issues and the legal restrictions and other regulations around potential insider trading.
- 340.4 A professional accountant in business should neither manipulate information nor use confidential information for personal gain.

SECTION 350

Inducements

Receiving Offers

- 350.1 A professional accountant in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.
- 350.2 Offers of inducements may create threats to compliance with the fundamental principles. When a professional accountant in business or an immediate or close family member is offered an inducement, the situation should be carefully considered. Self-interest threats to objectivity or confidentiality are created where an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the professional accountant in business or an immediate or close family member.

- 350.3 The significance of such threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, having knowledge of all relevant information, would consider the inducement insignificant and not intended to encourage unethical behavior, then a professional accountant in business may conclude that the offer is made in the normal course of business and may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 350.4 If evaluated threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in business should not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards should be adopted. A professional accountant in business should assess the risk associated with all such offers and consider whether the following actions should be taken:
- (a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organization;
 - (b) Inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; a professional accountant in business should, however, consider seeking legal advice before taking such a step;
 - (c) Advise immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example as a result of their employment situation; and
 - (d) Inform higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

Making Offers

- 350.5 A professional accountant in business may be in a situation where the professional accountant in business is expected to, or is under other pressure to, offer inducements to subordinate the judgment of another individual or organization, influence a decision-making process or obtain confidential information.
- 350.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions

- that would be advantageous to the employing organization possibly influencing the professional accountant in business improperly.
- 350.7 A professional accountant in business should not offer an inducement to improperly influence professional judgment of a third party.
- 350.8 Where the pressure to offer an unethical inducement comes from within the employing organization, the professional accountant should follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

DEFINITIONS

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

Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Assurance client	The responsible party that is the person (or persons) who: (a) In a direct reporting engagement, is responsible for the subject matter; or (b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter. (For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)
Assurance engagement	An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)
Assurance team	(a) All members of the engagement team for the assurance engagement;

	<p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm’s chief executive;</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</p> <p>(iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; and</p> <p>(c) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.</p>
Clearly insignificant	A matter that is deemed to be both trivial and inconsequential.
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 or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none"> • Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or • Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.
Director or officer	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.

Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.
Financial statement audit client	An entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will always include its related entities.
Financial statement audit engagement	A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards

	on Auditing. This includes a Statutory Audit, which is a financial statement audit required by legislation or other regulation.
Firm	<ul style="list-style-type: none"> a) A sole practitioner, partnership or corporation of 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.
Immediate family Independence	<p>A spouse (or equivalent) or dependant.</p> <p>Independence is:</p> <ul style="list-style-type: none"> (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm’s, or a member of the assurance team’s, integrity, objectivity or professional skepticism had been compromised.
Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
Network	<p>A larger structure:</p> <ul style="list-style-type: none"> (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm	A firm or entity that belongs to a network.
Office	A distinct sub-group, whether organized on geographical or practice lines.
Professional accountant	An individual who is a member of an IFAC member body.
Professional accountant in business	A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
Professional accountant in public practice	A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.
Professional services	Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client provided the client is material to such entity; (b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

EFFECTIVE DATE

The Code is effective on June 30, 2006. Paragraphs 290.1-290.13 and 290.27-290.47 are applicable to assurance engagements when the assurance report is dated on or after June 30, 2006. Paragraphs 290.14-290.26 are applicable to assurance engagements when the assurance report is dated on or after December 31, 2008.

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COUNCIL STANDING ORDERS

INVESTIGATIONS & DISCIPLINARY ISSUES

COUNCIL STANDING ORDER (COUN55M-minute 7.1)

Investigation Committee

- (i) Council shall appoint an Investigation Committee, which shall be tasked with investigating allegations of misconduct made against a member, or a student accountant.
- (ii) The Investigation Committee shall consist of three members. The quorum of the meetings of the Committee shall be two members.
- (iii) The Investigation Committee shall remain in office and function until the appointment of its successor;
Provided that if at that date the Committee has before it a partly heard case, those members who comprise the Committee shall continue to act as such for the purpose of completing such a case.
- (iv) It shall be the right of every member or any person to bring to the attention of the Investigation Committee any complaint indicating that a member, or a student accountant may have become liable to disciplinary action.
- (v) The Investigation Committee may, of its own motion, exercise its powers under these rules notwithstanding the absence of any complaint.
- (vi) Save where the Investigation Committee otherwise decides, a complaint shall be in the form of an affidavit, detailing the specific acts or failures complained of.
- (vii) The Investigation Committee shall not be obliged to disclose the source of a complaint.
- (viii) Upon receipt of a complaint the Investigation Committee may, where it is of the opinion that the complaint does not disclose a prima facie case of improper conduct or where a complainant has neglected or refused to comply with the requirements of these Rules, dismiss the complaint and inform the complainant accordingly.
- (ix) Upon receipt of a complaint the Investigation Committee may, where it is of the opinion that a prima facie case has been made for improper conduct on the part of the accused, advise the accused in writing of the particulars of the complaint and call upon him to furnish his written explanation to the complaint within 21 days of such notice, and at the same time warn him that such explanation may be used in evidence against him.
- (x) If upon consideration of the complaint and the accused' s explanation, the Investigation Committee is satisfied that-
 - A. the accused has given a reasonable explanation with regard to the conduct imputed to him; or
 - B. the conduct imputed to the accused does not constitute improper conduct; or
 - C. there is no reasonable prospect of proving that the accused has been guilty of the conduct imputed to him; it may decide not to proceed

further in the matter and shall advise the complainant and the accused accordingly.

- (xi) If the Investigation Committee is of the opinion that a prima facie case has been made out against the accused, it shall refer the matter to the Disciplinary Committee and shall send to such Committee a summary of the facts together with a copy of any representations made to the Investigation Committee.

Disciplinary Committee

- (i) The Disciplinary Committee shall consist of the President and the two vice presidents. The Disciplinary Committee may co-opt two members of Council to be a tribunal to hear the complaint. The President shall be the Chairman of the Committee.
- (ii) The quorum of the Disciplinary Committee shall be three members.
- (iii) The Disciplinary Committee shall co-opt the Legal Officer and a Senior Counsel as its advisers. The advisers shall not count as part of the quorum.
- (iv) On receipt of a referral from the Investigations Committee, the Disciplinary Committee shall as soon as practicable notify the accused of the nature of the complaint and the time and place fixed for the hearing.
- (v) The Disciplinary Committee shall give such accused person a reasonable opportunity of being heard before it and shall, if he so desires, permit him to be represented before it by a legal practitioner or by a member of the Institute.
- (vi) If the accused does not attend the hearing, then provided that the Disciplinary Committee is satisfied that the notice of that hearing was served on the accused the Disciplinary Committee may proceed to hear the complaint in the absence of the accused.
- (vii) The Disciplinary Committee shall cause to be kept, in a form appropriate to the nature of any particular hearing or inquiry, a record of the proceedings at such hearing or inquiry.
- (viii) Upon conclusion of the proceedings the Disciplinary Committee shall deliberate upon the case in camera, and the finding, and where applicable, the sentence, shall be communicated to the accused and complainant by the chairman forthwith.
- (ix) Where a member is struck-off the register the Disciplinary Committee shall cause a notice of such cancellation of membership to be published in the Government Gazette.
 - A. The full details of the cancellation of such membership shall be given to the media, and shall be published in the next issue of the *Zimbabwe Chartered Accountant* or its successors immediately after publication in the *Government Gazette*.
 - B. In all other cases, a summary not incorporating the accused's name shall be published in the *Zimbabwe Chartered Accountant* or its successors.

Disciplinary Procedures

The President, in his capacity as Chairman of the Disciplinary Committee, to decide in each individual case whether a disciplinary investigation is required.

Following any such decision by the President, the Disciplinary Committee comprising the President as Chairman and two vice presidents. The committee could co-opt two members of Council to deal with the disciplinary cases.

Any such Disciplinary committee shall be appointed with full delegated powers to investigate and finalise the case for which they have been appointed and the Legal Officer and a Senior Counsel from ICAZ Lawyers shall be co-opted to it as advisers. The quorum of a Disciplinary Committee shall be three not including the advisers.

The Disciplinary Committee to report to Council, Council may ask questions to seek clarification but it may not reverse any decisions made by the Disciplinary Committee.

(Coun23M & 24M 1999)

Rehabilitation of Members who have been disciplined.

The principle was agreed that “it was natural justice to re-instate a person who had demonstrated that he had been rehabilitated and that, in principle, a person who had been struck off the register for disciplinary matters could be re-admitted, who can show that he has been rehabilitated and evidenced restitution as well.”

(Coun22M - minute 7.2)

Disciplinary Cases: Publicity

- (a) In the event of a member being struck-off, full details of the reasons should be given to the media and published in the next issue of the *Zimbabwe Chartered Accountant* immediately after the notice cancelling his registration has appeared in the *Government Gazette*.
- (b) In all other cases, a summary not incorporating the members' name should be published in the *Zimbabwe Chartered Accountant* and copies of the summary provided to the media. *(COUN [96-97]3rd mtg minute 6.3.3)*

ICAZ STANDING COMMITTEES

The Standing Committees are appointed for one year at the first Council meeting in each Presidential Year. They focus on professional matters. In principle -

- 1 Council delegates to the Standing Committees as much as possible so that Committees are normally the final arbiters on matters within their purview and action can be taken as soon as a decision is taken.
- 2 Small informal working parties are used to investigate and report on specialist matters on which Council or a Committee requires information. The use of formal standing sub-committees with formal agendas and minutes is minimised.
- 3 Informal working parties are used to establish trends and to draw attention to any matters requiring policy decisions. They, and the secretariat, report on an exception basis whenever possible.

The following matters are referred and delegated to standing committees -

Accounting Procedures Committee

To make appropriate decisions, within the policy decided by Council, concerning -

- (a) accounting practice in terms of International Financial Reporting Standards;
- (b) exposure drafts and standards issued by International Financial Reporting Standards Board (IFRSB),
- (c) International Financial Reporting Interpretation Committee (IFRIC) and IFAC;
- (d) To recommend the adoption of International Financial Reporting Standards (IFRS) and International Financial
- (e) Reporting Interpretation Committee Statements (IFRICs);
- (d) the preparation and publication of local directives and guidelines concerning International Financial Reporting Standards;
- (e) The monitoring by working parties of the published financial statements of public companies and other business enterprises with reference to their degree of compliance with International Financial Reporting Standards, the Companies Act (or establishing Act) and any other relevant legislation;
- (f) representation of the Institute on the Zimbabwe Accounting Practices Board;
- (g) advice to the President concerning responses to media or other queries concerning matters within the purview of the committee; advice to the Education Committee concerning the content of the Continuing Professional Development Programme.
- (h) To refer to the APSC any matters arising from the monitoring process falling within its purview;

Auditing and Professional Standards Committee

To make appropriate decisions, within the policy decided by Council, concerning

- (a) audit practice;
- (b) professional ethics and the Rules of Professional Conduct (any changes to the Rules require Council approval);
- (c) the scrutiny of exposure drafts, auditing statements and standards issued by IFAC;
- (d) the adoption of International Standards on Auditing;
- (d) the preparation and publication of Zimbabwe statements on professional practice and conduct (including local directives and guidelines on International Standards on Auditing);
- (e) information technology;
- (f) corporate governance;
- (g) fraud and corruption;
- (i) advice to the President concerning responses to media or other queries concerning matters within the purview of the committee; and
- (j) advice to the Education Committee concerning the content of the Continuing Professional Education Programme.
- (k) the scrutiny of exposure drafts and auditing standards issued by IFAC or any other bodies as appropriate.

Education Committee

To make appropriate decisions, within the policy decided by Council, concerning

- (a) the education and training of students;
- (b) liaison with university departments concerning the provision of accountancy degree and postgraduate programmes;
- (c) the accreditation of training offices and the number (quota) of student accountants permitted to be employed in each office;
- (d) equal opportunity employment of student accountants;
- (e) the registration, discharge, cancellation, transfer, suspension and reinstatement of training contracts;
- (f) the scrutiny of the training records of a sample of students and the consideration of any consequent report on trends and any general deficiencies;
- (g) the scrutiny of education exposure drafts and similar papers and reports; and
- (h) advice to the President concerning responses to media or other queries concerning matters within the purview of the committee.

Tax and Other Legislation Committee

To make appropriate decisions, within the policy decided by Council, concerning-

- (a) proposals and legislation affecting the practise of the profession, including its revision or amendment;
- (b) the scrutiny of such legislation;
- (c) the preparation and publication of statements on such legislation for the

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- guidance of members (including the proposed newsletter);
 - (d) advice to the President concerning
 - responses to media or other queries concerning matters within the purview of the committee, and
 - meetings with the Minister or Secretary for Finance concerning taxation policy;
 - (e) advice to the Education Committee concerning the content of the Continuing Professional Education Programme;
 - (f) annual meetings with the Commissioner of Taxes concerning tax administration;
 - (g) liaison with taxation committees of other bodies.
 - (h) Zimbabwe legislation affecting the practise of the profession and/or the status or interest of the Institute or its members, the public at large, and clients in particular, including its revision or amendment;
 - (i) the scrutiny of such legislation;
 - (j) the preparation and publication of statements on such legislation for the guidance of members;
 - (k) advice to the President concerning -
 - responses to media or other queries concerning matters within the purview of the committee and
 - meetings with Ministers, and heads of Ministries and other bodies concerning policy; and
 - (l) advice to the Education Committee concerning the content of the Continuing Professional Education Programme.

Continuing Professional Development Committee

- (a) Setting the CPE requirements for members and the organisation of the CPE programme; (*see Appendix 2*)
- (b) the course of action required following non-compliance by members;
- (c) the dissemination of CPE requirements to members;
- (d) liaison with the PAAB on CPE matters;
- (e) liaison with the Education Committee;
- (f) liaison with the District and Student Societies.

Zimbabwe Chartered Accountants Examinations Board

The functions of the Examinations Board are laid down in the Chartered Accountants By-laws. They are - to advise the Council in relation to (extract from the By-laws) "to conduct and control, within the policy established by Council, the examinations of the Institute; and to report to Council on the results of such examinations." The appointment and remuneration of examiners and moderators and such other functions as may be specified by the council from time to time." The Council has delegated the following functions to the Board. It may refer a matter to the Council at any time.

- (a) the conduct and control of examinations;
- (b) the syllabus, entry qualification and structure of the Institute final qualifying examination
- (c) the Examination Regulations;
- (d) the preparation, printing and marking of examination papers;
- (e) the venues, dates, times and holding of the examinations;

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- (f) the adjudication of examination results;
 - (g) the appointment of examiners and external examiners;
 - (h) advice to the Public Relations Committee and Education Committee concerning the content of the Public Relations Programme and the Continuing Professional Education Programme respectively.

Public relations committee

- (a) To carry out such activities as necessary to raise the positive public profile of the profession of Accountancy and, thereby enhance the brand 'Chartered Accountant'.
- (b) To promote national, regional and international linkages at all levels.

Practice Review Committee

1. Quorum

Three members personally present of whom at least one member is in practice and one member is out of practice.

2. Committee Composition

Seven members in total, one being the Chairman, 3 being members in practice and 3 being non practicing members. One of the Committee members should be a PAAB Board representative.

3. Observers

Observers may be invited to attend meetings. If this is the case at least one must be a Board member of PAAB. One from the PAAB Board and one from each of the Institutions accredited by the PAAB.

4. Tenure of Office of Committee Members

Renewable on an annual basis, up to a maximum period of six years. As far as possible one new member every year.

5. Chairman

Elected annually by members of the Committee.

6. Disqualification of Members From the Committee

Committee members may not be members of the Investigation and/or Disciplinary Committees during period of office.

7. Committee Meetings

The Committee will meet at least once a year or as necessary at No 2 Bath Road Cnr Second Street, the offices of the Institute of Chartered Accountants of Zimbabwe.

8. Committee Members Responsibilities

- A. To participate in practice review policy decisions including:
 - a) determining the nature of the attest assignments that are subject to practice review;
 - b) determining the re-review criteria for each review cycle;

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- c) determining the appropriateness of the standard documentation used by the department;
 - d) communicating the overall results of the reviews.
- B.** To participate in the practice review process including:
- a) monitoring the progress of the review cycle;
 - b) considering whether the review reports and recommendations are consistent and of an appropriate quality;
 - c) determining the outcome of the individual review findings;
 - d) providing guidance to the department with regard to problems and difficulties encountered.

9 Practice Review Charge Out Rates

The following formulae to be used when calculating practice review charge out rates:

The review hours of the Technical Director and the Chief Executive Officer at cost, to be added to the direct costs incurred by ICAZ. These will include transport printing and stationery, telephones faxes and e-mails, etc. The principal being to recover full cost without a mark-up.

10. Document Destruction

To cause document destruction in respect of all successful reviews immediately after the meeting and to instruct the secretariat to keep files documenting unsuccessful reviews for possible referral to the Investigations Committee.

QUALITY CONTROL

INTERNATIONAL STANDARD ON QUALITY CONTROL 1

(REDRAFTED)

**QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS
OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED
SERVICES ENGAGEMENTS**

(Effective as of December 15, 2009)

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International Standard on Quality Control (ISQC) 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" should be read in conjunction with ISA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

Introduction

Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.
2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220 (Redrafted),¹ for example, deals with quality control procedures for audits of financial statements.
3. A system of quality control consists of policies designed to achieve the objective set out in paragraph 11 and the procedures necessary to implement and monitor compliance with those policies.

Authority of this ISQC

4. This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.
5. This ISQC contains the objective of the firm in following the ISQC, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 8, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
6. The objective provides the context in which the requirements of this ISQC are set, and is intended to assist the firm in:
Understanding what needs to be accomplished; and
Deciding whether more needs to be done to achieve the objective.
7. The requirements of this ISQC are expressed using "shall."
8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
Explain more precisely what a requirement means or is intended to cover.
Include examples of policies and procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQC. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.

9. This ISQC includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Standards on Auditing, Assurance, and Ethics Pronouncements published by IFAC includes the terms defined in this ISQC. It also includes descriptions of other terms found in this ISQC to assist in common and consistent interpretation and translation.

Effective Date

10. Systems of quality control in compliance with this ISQC are required to be established by December 15, 2009.

Objective

11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:
 - (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and
 - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

Definitions

12. In this ISQC, the following terms have the meanings attributed below:
 - (a) Date of report – The date selected by the practitioner to date the report.
 - (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).
 - (c) Engagement partner² – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

- (d) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.
- (e) Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.
- (f) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
- (g) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.
- (h) Inspection – In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures.
- (i) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
- (j) Monitoring – A process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.
- (k) Network firm – A firm or entity that belongs to a network.
- (l) Network – A larger structure:
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (n) Personnel – Partners and staff.
- (o) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, and relevant ethical requirements.

- (p) Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance.
- (q) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Federation of Accountants' *Code of Ethics for Professional Accountants* (IFAC Code) together with national requirements that are more restrictive.
- (r) Staff – Professionals, other than partners, including any experts the firm employs.
- (s) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.

Requirements

Applying, and Complying with, Relevant Requirements

13. Personnel within the firm responsible for establishing and maintaining the firm's system of quality control shall have an understanding of the entire text of this ISQC, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
14. The firm shall comply with each requirement of this ISQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided in respect of audits and reviews of financial statements, and other assurance and related services engagements. (Ref: Para. A1)
15. The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this ISQC to meet the stated objective.

Elements of a System of Quality Control

16. The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:
 - (a) Leadership responsibilities for quality within the firm.
 - (b) Relevant ethical requirements.
 - (c) Acceptance and continuance of client relationships and specific engagements.

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- (d) Human resources.
 - (e) Engagement performance.
 - (f) Monitoring.
17. The firm shall document its policies and procedures and communicate them to the firm's personnel. (Ref: Para. A2-A3)

Leadership Responsibilities for Quality within the Firm

18. The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements. Such policies and procedures shall require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control. (Ref: Para. A4-A5)
19. The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6)

Relevant Ethical Requirements

20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: Para. A7-A10)
Independence
21. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to:
- (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and
 - (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is permitted by law or regulation. (Ref: Para. A10)
22. Such policies and procedures shall require:
- (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
 - (b) Personnel to promptly notify the firm of circumstances and relationships

- that create a threat to independence so that appropriate action can be taken; and
- (c) The accumulation and communication of relevant information to appropriate personnel so that:
- (i) The firm and its personnel can readily determine whether they satisfy independence requirements;
 - (ii) The firm can maintain and update its records relating to independence; and
 - (iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level. (Ref: Para. A10)
23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:
- (a) Personnel to promptly notify the firm of independence breaches of which they become aware;
 - (b) The firm to promptly communicate identified breaches of these policies and procedures to:
 - (i) The engagement partner who, with the firm, needs to address the breach; and
 - (ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and
 - (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action. (Ref: Para. A10)
24. At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A10-A11)
25. The firm shall establish policies and procedures:
- (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
 - (b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others

subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A10, A12-A17)

Acceptance and Continuance of Client Relationships and Specific Engagements

26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:
- (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: Para. A18, A23)
 - (b) Can comply with relevant ethical requirements; and
 - (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. (Ref: Para. A19-A20, A23)
27. Such policies and procedures shall require:
- (a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (Ref: Para. A21, A23)
 - (b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.
 - (c) If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.
28. The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures shall include consideration of:
- (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
 - (b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship. (Ref: Para. A22-A23)

Human Resources

29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence,

capabilities, and commitment to ethical principles necessary to:

- (a) Perform engagements in accordance with professional standards and regulatory and legal requirements; and
- (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A24-A29)

Assignment of Engagement Teams

- 30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:
 - (a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;
 - (b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and
 - (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30)
- 31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:
 - (a) Perform engagements in accordance with professional standards and regulatory and legal requirements; and
 - (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A31)

Engagement Performance

- 32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:
 - (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32-A33)
 - (b) Supervision responsibilities; and (Ref: Para. A34)
 - (c) Review responsibilities. (Ref: Para. A35)
- 33. The firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by

more experienced engagement team members.

Consultation

34. The firm shall establish policies and procedures designed to provide it with reasonable assurance that:
- (a) Appropriate consultation takes place on difficult or contentious matters;
 - (b) Sufficient resources are available to enable appropriate consultation to take place;
 - (c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
 - (d) Conclusions resulting from consultations are implemented. (Ref: Para. A36-A40)

Engagement Quality Control Review

35. The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:
- (a) Require an engagement quality control review for all audits of financial statements of listed entities;
 - (b) Set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41)
 - (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph (b).
36. The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review. (Ref: Para. A42-A43)
37. The firm shall establish policies and procedures to require the engagement quality control review to include:
- (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the financial statements or other subject matter information and the proposed report;

- (c) review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
 - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44)
38. For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:
- (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement;
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. (Ref: Para. A45-A46)
- Criteria for the Eligibility of Engagement Quality Control Reviewers*
39. The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:
- (a) The technical qualifications required to perform the role, including the necessary experience and authority; and (Ref: Para. A47)
 - (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (Ref: Para. A48)
40. The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. (Ref: Para. A49-A51)
41. The firm's policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.
- Documentation of the Engagement Quality Control Review*
42. The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:
- (a) The procedures required by the firm's policies on engagement quality control review have been performed;
 - (b) The engagement quality control review has been completed on or before the date of the report; and
 - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.

Differences of Opinion

43. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A52-A53)
44. Such policies and procedures shall require that:
 - (a) Conclusions reached be documented and implemented; and
 - (b) The report not be dated until the matter is resolved.

Engagement Documentation

Completion of the Assembly of Final Engagement Files

45. The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. (Ref: Para. A54-A55)
Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation
46. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A56-A59)
Retention of Engagement Documentation
47. The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. (Ref: Para. A60-A63)

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures

48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:
 - (a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
 - (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
 - (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (Ref: Para. A64-A68)

Evaluating, Communicating and Remediating Identified Deficiencies

49. The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:
- (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory and legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
 - (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.
50. The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: Para. A69)
51. Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:
- (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel;
 - (b) The communication of the findings to those responsible for training and professional development;
 - (c) Changes to the quality control policies and procedures; and
 - (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.
52. The firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements and to consider whether to obtain legal advice.
53. The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following:
- (a) A description of the monitoring procedures performed.
 - (b) The conclusions drawn from the monitoring procedures.
 - (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

54. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system, the firm's policies and procedures shall require that:
- (a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and
 - (b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken, in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.

Complaints and Allegations

55. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
- (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
 - (b) Allegations of non-compliance with the firm's system of quality control.
- As part of this process, the firm shall establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (Ref: Para. A70)
56. If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures or non-compliance with the firm's system of quality control by an individual or individuals are identified, the firm shall take appropriate actions as set out in paragraph 51. (Ref: Para. A71-A72)

Documentation of the System of Quality Control

57. The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para. A73-A75)
58. The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.
59. The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

APPLICATION AND OTHER EXPLANATORY MATERIAL

Applying, and Complying with, Relevant Requirements

Considerations Specific to Smaller Firms (Ref: Para. 14)

- A1. This ISQC does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no staff. Requirements in this ISQC such as those for policies and procedures for the assignment of appropriate personnel to the engagement team (see paragraph 31), for review responsibilities (see paragraph 33), and for the annual communication of the results of monitoring to engagement partners within the firm (see paragraph 53) are not relevant in the absence of staff.

Elements of a System of Quality Control (Ref: Para. 17)

- A2. In general, communication of quality control policies and procedures to firm personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging firm personnel to communicate their views or concerns on quality control matters recognizes the importance of obtaining feedback on the firm's system of quality control.

Considerations Specific to Smaller Firms

- A3. Documentation and communication of policies and procedures for smaller firms may be less formal and extensive than for larger firms.

Leadership Responsibilities for Quality within the Firm

Promoting an Internal Culture of Quality (Ref: Para. 18)

- A4. The firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasize the firm's quality control policies and procedures, and the requirement to:

- (a) Perform work that complies with professional standards and regulatory and legal requirements; and
- (b) Issue reports that are appropriate in the circumstances. Such actions and messages encourage a culture that recognizes and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm's internal

documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

- A5. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Promoting such an internal culture includes:
- (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality;
 - (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
 - (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures.

Assigning Operational Responsibility for the Firm's System of Quality Control (Ref: Para. 19)

- A6. Sufficient and appropriate experience and ability enables the person or persons responsible for the firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

Relevant Ethical Requirements

Compliance with Relevant Ethical Requirements (Ref: Para. 20)

- A7. The IFAC Code establishes the fundamental principles of professional ethics, which include:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behavior.

- A8. Part B of the IFAC Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.
- A9. The fundamental principles are reinforced in particular by:
The leadership of the firm;
Education and training;
Monitoring; and
A process for dealing with non-compliance.

Definition of “Firm,” “Network” and “Network Firm” (Ref: Para. 20-25)

- A10. The definitions of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. For example, the IFAC Code defines the “firm” as:
- (a) A sole practitioner, partnership or corporation of 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.

The IFAC Code also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Written Confirmation (Ref: Para. 24)

- A11. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.
Familiarity Threat (Ref: Para. 25)

- A12. The IFAC Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.

- A13. Determining appropriate criteria to address familiarity threat may include matters such as:

-
- The nature of the engagement, including the extent to which it involves a matter of public interest; and
 - The length of service of the senior personnel on the engagement.

Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.

A14. The IFAC Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IFAC Code requires the rotation of the key audit partner³ after a pre-defined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.

Considerations specific to public sector audit organizations

A15. Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in establishing the policies and procedures required by paragraphs 20-25, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.

A16. Listed entities as referred to in paragraphs 25 and A14 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when a firm determines, based on its quality control policies and procedures, that a public sector entity is significant for the purposes of expanded quality control procedures.

A17. In the public sector, legislation may establish the appointments and terms of office of the auditor with engagement partner responsibility. As a result, it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless, for public sector entities considered significant, as noted in paragraph A16, it may be in the public interest for public sector audit organizations to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility.

Acceptance and Continuance of Client Relationships and Specific Engagements

Competence, Capabilities, and Resources (Ref: Para. 26(a))

A18. Consideration of whether the firm has the competence, capabilities, and resources to undertake a new engagement from a new or an existing client involves reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, and including whether:

- Firm personnel have knowledge of relevant industries or subject matters;
- Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- Firm has sufficient personnel with the necessary competence and capabilities;
- Experts are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm is able to complete the engagement within the reporting deadline.

Integrity of Client (Ref: Para. 26(c))

A19. With regard to the integrity of a client, matters to consider include, for example:

- The identity and business reputation of the client's principal owners, key management, and those charged with its governance.
 - The nature of the client's operations, including its business practices.
 - Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
 - Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
 - Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
 - The identity and business reputation of related parties.

The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

A20. Sources of information on such matters obtained by the firm may include the following:

- Communications with existing or previous providers of professional accountancy services to the client in accordance with relevant ethical requirements, and discussions with other third parties.
- Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

Continuance of Client Relationship (Ref: Para. 27(a))

A21. Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary expertise.

Withdrawal (Ref: Para. 28)

A22. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant matters, consultations, conclusions and the basis for the conclusions.

Considerations Specific to Public Sector Audit Organizations (Ref: Para. 26-28)

A23. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and specific engagements as set out paragraphs 26-28 and A18-A22 may not be relevant. Nonetheless, establishing policies and procedures as described may provide valuable information to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Human Resources (Ref: Para. 29)

A24. Personnel issues relevant to the firm's policies and procedures related to human resources include, for example:

Recruitment.

Performance evaluation.

Capabilities, including time to perform assignments.

Competence.

Career development.

Promotion.

Compensation.

The estimation of personnel needs.

Effective recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently.

A25. Competence can be developed through a variety of methods, including the following:

Professional education.

Continuing professional development, including training.

Work experience.

Coaching by more experienced staff, for example, other members of the engagement team.

Independence education for personnel who are required to be independent.

- A26. The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.
- A27. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.
- A28. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a firm may take in developing and maintaining competence and commitment to ethical principles include:
- Making personnel aware of the firm's expectations regarding performance and ethical principles;
 - Providing personnel with evaluation of, and counseling on, performance, progress and career development; and
 - Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.

Considerations Specific to Smaller Firms

- A29. The size and circumstances of the firm will influence the structure of the firm's performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their personnel.

Assignment of Engagement Teams

Engagement Partners (Ref: Para. 30)

- A30. Policies and procedures may include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

Engagement Teams (Ref: Para. 31)

- A31. The firm's assignment of engagement teams and the determination of the level of supervision required, include for example, consideration of the engagement team's:

Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;

Understanding of professional standards and regulatory and legal requirements;

Technical knowledge and expertise, including knowledge of relevant information technology;

Knowledge of relevant industries in which the clients operate;

Ability to apply professional judgment; and

Understanding of the firm's quality control policies and procedures.

Engagement Performance

Consistency in the Quality of Engagement Performance (Ref: Para. 32(a))

A32. The firm promotes consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:

How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.

Processes for complying with applicable engagement standards.

Processes of engagement supervision, staff training and coaching.

Methods of reviewing the work performed, the significant judgments made and the form of report being issued.

Appropriate documentation of the work performed and of the timing and extent of the review.

Processes to keep all policies and procedures current.

A33. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

Supervision (Ref: Para. 32(b))

A34. Engagement supervision includes the following:

Tracking the progress of the engagement;

Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;

Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and

Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

Review (Ref: Para. 32(c))

A35. A review consists of consideration of whether:

The work has been performed in accordance with professional standards and regulatory and legal requirements;

Significant matters have been raised for further consideration;

Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

There is a need to revise the nature, timing and extent of work performed;

The work performed supports the conclusions reached and is appropriately documented;

The evidence obtained is sufficient and appropriate to support the report; and

The objectives of the engagement procedures have been achieved.

Consultation (Ref: Para. 34)

A36. Consultation includes discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise.

A37. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the firm's policies and procedures helps to promote a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.

A38. Effective consultation on significant technical, ethical and other matters within the firm, or where applicable, outside the firm can be achieved when those consulted:

Are given all the relevant facts that will enable them to provide informed advice; and

Have appropriate knowledge, seniority and experience, and when conclusions resulting from consultations are appropriately documented and implemented.

A39. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

The issue on which consultation was sought; and

The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Considerations Specific to Smaller Firms

A40. A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by:

Other firms;

Professional and regulatory bodies; or

Commercial organizations that provide relevant quality control services.

Before contracting for such services, consideration of the competence and capabilities of the external provider helps the firm to determine whether the external provider is suitably qualified for that purpose.

Engagement Quality Control Review

Criteria for an Engagement Quality Control Review (Ref: Para. 35(b))

A41. Criteria for determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review may include, for example:

The nature of the engagement, including the extent to which it involves a matter of public interest.

The identification of unusual circumstances or risks in an engagement or class of engagements.

Whether laws or regulations require an engagement quality control review.

Nature, Timing and Extent of the Engagement Quality Control Review (Ref: Para. 36-37)

- A42. The engagement report is not dated until the completion of the engagement quality control review. However, documentation of the engagement quality control review may be completed after the date of the report.
- A43. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the report.
- A44. The extent of the engagement quality control review may depend, among other things, on the complexity of the engagement, whether the entity is a listed entity, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.

Engagement Quality Control Review of a Listed Entity (Ref: Para. 38)

- A45. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a listed entity include:

Significant risks identified during the engagement and the responses to those risks.

Judgments made, particularly with respect to materiality and significant risks.

The significance and disposition of corrected and uncorrected misstatements identified during the engagement.

The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and other assurance and related services engagements.

Considerations specific to public sector audit organizations

- A46. Although not referred to as listed entities, as described in paragraph A16, certain public sector entities may be of sufficient significance to warrant performance of an engagement quality control review.

Criteria for the Eligibility of Engagement Quality Control Reviewers

Sufficient and Appropriate Technical Expertise, Experience and Authority
(Ref: Para. 39(a))

A47. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of a listed entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.

Consultation with the Engagement Quality Control Reviewer (Ref: Para. 39(b))

A48. The engagement partner may consult the engagement quality control reviewer during the engagement, for example, to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Such consultation avoids identification of differences of opinion at a late stage of the engagement and need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

Objectivity of the Engagement Quality Control Reviewer (Ref: Para. 40)

A49. The firm is required to establish policies and procedures designed to maintain objectivity of the engagement quality control reviewer. Accordingly, such policies and procedures provide that the engagement quality control reviewer:

Where practicable, is not selected by the engagement partner;

Does not otherwise participate in the engagement during the period of review;

Does not make decisions for the engagement team; and

Is not subject to other considerations that would threaten the reviewer's objectivity.

Considerations specific to smaller firms

A50. It may not be practicable, in the case of firms with few partners, for the engagement partner not to be involved in selecting the engagement quality

control reviewer. Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the requirements in paragraphs 39-41 and guidance in paragraphs A47-A48 apply.

Considerations specific to public sector audit organizations

A51. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

Differences of Opinion (Ref: Para. 43)

A52. Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.

A53. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Documentation

Completion of the Assembly of Final Engagement Files (Ref: Para. 45)

A54. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 45 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.

A55. Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation (Ref: Para. 46)

- A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.
- A57. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid unauthorized alteration or loss of engagement documentation may include those that:

Enable the determination of when and by whom engagement documentation was created, changed or reviewed;

Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet;

Prevent unauthorized changes to the engagement documentation; and

Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

- A58. Controls that the firm designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation may include the following:

The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users.

Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.

Procedures for properly distributing engagement documentation to the team members at the start of the engagement, processing it during engagement, and collating it at the end of engagement.

Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

A59. For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In such cases, the firm's procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the engagement teams to:

Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;

Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and

Enable the scanned copies to be retrieved and printed as necessary.

There may be legal, regulatory or other reasons for a firm to retain original paper documentation that has been scanned.

Retention of Engagement Documentation (Ref: Para. 47)

A60. The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.

A61. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.

A62. Procedures that the firm adopts for retention of engagement documentation include those that enable the requirements of paragraph 47 to be met during the retention period, for example to:

Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time;

Provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed; and
Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

Ownership of engagement documentation

A63. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures (Ref: Para. 48)

A64. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:

Adherence to professional standards and regulatory and legal requirements;

Whether the system of quality control has been appropriately designed and effectively implemented; and

Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.

A65. Ongoing consideration and evaluation of the system of quality control include matters such as the following:

- Analysis of:

New developments in professional standards and regulatory and legal requirements, and how they are reflected in the firm's policies and procedures where appropriate;

Written confirmation of compliance with policies and procedures on independence;

Continuing professional development, including training; and

Decisions related to acceptance and continuance of client relationships and specific engagements.

- Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training.
- Communication to appropriate firm personnel of weaknesses identified

in the system, in the level of understanding of the system, or compliance with it.

- Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.

A66. Inspection cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following:

The size of the firm.

The number and geographical location of offices.

The results of previous monitoring procedures.

The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them).

The nature and complexity of the firm's practice and organization.

The risks associated with the firm's clients and specific engagements.

A67. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the firm may take into account the scope or conclusions of an independent external inspection program. However, an independent external inspection program does not act as a substitute for the firm's own internal monitoring program.
Considerations Specific to Smaller Firms

A68. In the case of small firms, monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the firm's quality control policies and procedures, or who may be involved in performing the engagement quality control review. A firm with a limited number of persons may choose to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, the firm may establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.

Communicating Deficiencies (Ref: Para. 50)

A69. The reporting of identified deficiencies to individuals other than the relevant engagement partners need not include an identification of the specific engagements concerned, although there may be cases where such

identification may be necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.

Complaints and Allegations

Source of Complaints and Allegations (Ref: Para. 55)

A70. Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.

Investigation Policies and Procedures (Ref: Para. 56)

A71. Policies and procedures established for the investigation of complaints and allegations may include for example, that the partner supervising the investigation:

Has sufficient and appropriate experience;

Has authority within the firm; and

Is otherwise not involved in the engagement.

The partner supervising the investigation may involve legal counsel as necessary.

Considerations specific to smaller firms

A72. It may not be practicable, in the case of firms with few partners, for the partner supervising the investigation not to be involved in the engagement. These small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation into complaints and allegations.

Documentation of the System of Quality Control (Ref: Para. 57)

A73. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgment and depends on a number of factors, including the following:

- The size of the firm and the number of offices.
- The nature and complexity of the firm's practice and organization.

For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections.

A74. Appropriate documentation relating to monitoring includes, for example:

- Monitoring procedures, including the procedure for selecting completed engagements to be inspected.
- A record of the evaluation of:
 - Adherence to professional standards and regulatory and legal requirements;
 - Whether the system of quality control has been appropriately designed and effectively implemented; and
 - Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.
- Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary.

Considerations Specific to Smaller Firms

A75. Smaller firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.

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INTERNATIONAL STANDARD ON AUDITING 220

(REDRAFTED)

QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods beginning on or after
December 15, 2009)

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International Standard on Auditing (ISA) 220 (Redrafted), "Quality Control for an Audit of Financial Statements" should be read in conjunction with ISA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

INTRODUCTION

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. This ISA is to be read in conjunction with relevant ethical requirements.

System of Quality Control and Role of Engagement Teams

2. Quality control systems, policies and procedures are the responsibility of the audit firm. Under ISQC 1 (Redrafted), the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
 - (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and
 - (b) The reports issued by the firm or engagement partners are appropriate in the circumstances.

This ISA is premised on the basis that the firm is subject to ISQC 1 (Redrafted) or to national requirements that are at least as demanding. (Ref: Para. A1)

3. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures that are applicable to the audit engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.
4. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A2)

Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objective

6. The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:
 - (a) The audit complies with professional standards and regulatory and legal requirements; and

-
- (b) The auditor's report issued is appropriate in the circumstances.

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
- (a) Engagement partner² – The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
 - (b) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report. The engagement quality control review process is only for audits of financial statements of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.
 - (c) Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report.
 - (d) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.³
 - (e) Firm – A sole practitioner, partnership, corporation or other entity of professional accountants.
 - (f) Inspection – In relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
 - (g) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
 - (h) Monitoring – A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

- (i) Network firm – A firm or entity that belongs to a network.
- (j) Network – A larger structure:
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (k) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (l) Personnel – Partners and staff.
- (m) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.
- (n) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC Code) related to an audit of financial statements together with national requirements that are more restrictive.
- (o) Staff – Professionals, other than partners, including any experts the firm employs.
- (p) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits of historical financial information or of an organization that provides relevant quality control services.

Requirements

Leadership Responsibilities for Quality on Audits

8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Ref: Para. A3)

Relevant Ethical Requirements

9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence

of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4-A5)

10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)

Independence

11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:
 - (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
 - (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A5-A7)

Acceptance and Continuance of Client Relationships and Audit Engagements

12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8-A9)
13. If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A9)

Assignment of Engagement Teams

14. The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:

-
- (a) Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and
 - (b) Enable an auditor's report that is appropriate in the circumstances to be issued. (Ref: Para. A10-A12)

Engagement Performance

Direction, Supervision and Performance

- 15. The engagement partner shall take responsibility for:
 - (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and (Ref: Para. A13-A15, A20)
 - (b) The auditor's report being appropriate in the circumstances.

Reviews

- 16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16-A17, A20)
- 17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18-A20)

Consultation

- 18. The engagement partner shall:
 - (a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
 - (b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
 - (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
 - (d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A21-A22)

Engagement Quality Control Review

19. For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
 - (a) Determine that an engagement quality control reviewer has been appointed;
 - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - (c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A23-A25)
20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
 - (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the financial statements and the proposed auditor's report;
 - (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
 - (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26-A27, A29-A31)
21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
 - (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. (Ref: Para. A28-A31)

Differences of Opinion

22. If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

Monitoring

23. An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A32-A34)

Documentation

24. The auditor shall document:
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
 - (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
 - (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
 - (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. A35)
25. The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
- (a) The procedures required by the firm's policies on engagement quality control review have been performed;
 - (b) The engagement quality control review has been completed on or before the date of the auditor's report; and
 - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Application and Other Explanatory Material

System of Quality Control and Role of Engagement Teams (Ref: Para. 2)

- A1. ISQC 1 (Redrafted), or national requirements that are at least as demanding, deals with the firm's responsibilities to establish and maintain its system of

quality control for audit engagements. The system of quality control includes policies and procedures that address each of the following elements:

Leadership responsibilities for quality within the firm;

Relevant ethical requirements;

Acceptance and continuance of client relationships and specific engagements;

Human resources;

Engagement performance; and

Monitoring.

National requirements that deal with the firm's responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 (Redrafted) when they address all the elements referred to in this paragraph and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Redrafted).

Reliance on the Firm's System of Quality Control (Ref: Para. 4)

A2. Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:

Competence of personnel through their recruitment and formal training.

Independence through the accumulation and communication of relevant independence information.

Maintenance of client relationships through acceptance and continuance systems.

Adherence to regulatory and legal requirements through the monitoring process.

Leadership Responsibilities for Quality on Audits (Ref: Para. 8)

A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:

(a) The importance to audit quality of:

- (i) Performing work that complies with professional standards and regulatory and legal requirements;
 - (ii) Complying with the firm's quality control policies and procedures as applicable;
 - (iii) Issuing auditor's reports that are appropriate in the circumstances; and
 - (iv) The engagement team's ability to raise concerns without fear of reprisals; and
- (b) The fact that quality is essential in performing audit engagements.

Relevant Ethical Requirements

Compliance with Relevant Ethical Requirements (Ref: Para. 9)

- A4. The IFAC Code establishes the fundamental principles of professional ethics, which include:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behavior.

Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 9-11)

- A5. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this ISA. For example, the IFAC Code defines the "firm" as:
- (a) A sole practitioner, partnership or corporation of 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.

The IFAC Code also provides guidance in relation to the terms "network" and "network firm." In complying with the requirements in paragraphs 9-11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Threats to Independence (Ref: Para. 11(c))

A6. The engagement partner may identify a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11(c), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is legally permitted.

Considerations Specific to Public Sector Entities

A7. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 11. This may include, where the public sector auditor’s mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 12)

A8. ISQC 1 (Redrafted) requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.⁴ Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

The integrity of the principal owners, key management and those charged with governance of the entity;

Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;

Whether the firm and the engagement team can comply with relevant ethical requirements; and

Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

Considerations Specific to Public Sector Entities (Ref: Para. 12-13)

A9. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12, 13 and A8 may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Assignment of Engagement Teams (Ref: Para. 14)

A10. An engagement team also includes a member using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement.

A11. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.

Understanding of professional standards and regulatory and legal requirements.

Technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing.

Knowledge of relevant industries in which the client operates.

Ability to apply professional judgment.

Understanding of the firm's quality control policies and procedures.

Considerations Specific to Public Sector Entities

A12. In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with legislative authorities and preventing and detecting fraud and corruption.

Engagement Performance

Direction, Supervision and Performance (Ref: Para. 15(a))

A13. Direction of the engagement team involves informing the members of the engagement team of matters such as:

Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism as required by ISA 200 (Revised and Redrafted).

- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- The objectives of the work to be performed.
- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the engagement.

Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team.

A14. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

A15. Supervision includes matters such as:

Tracking the progress of the audit engagement.

Considering the competence and capabilities of individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the audit engagement.

Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.

Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.

Reviews

Review Responsibilities (Ref: Para. 16)

A16. Under ISQC 1 (Redrafted), the firm's review responsibility policies and procedures are determined on the basis that work of less experienced team members is reviewed by more experienced team members.⁶

A17. A review consists of consideration whether, for example:

The work has been performed in accordance with professional standards and regulatory and legal requirements;

Significant matters have been raised for further consideration;

Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

There is a need to revise the nature, timing and extent of work performed;

The work performed supports the conclusions reached and is appropriately documented;

The evidence obtained is sufficient and appropriate to support the auditor's report; and

The objectives of the engagement procedures have been achieved.

The Engagement Partner's Review of Work Performed (Ref: Para. 17)

A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report:

Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement;

Significant risks; and

Other areas the engagement partner considers important.

The engagement partner need not review all audit documentation, but may do so. However, as required by ISA 230

(Redrafted), the partner documents the extent and timing of the reviews.

A19. An engagement partner taking over an audit during the engagement may apply the review procedures as described in paragraphs A18 to review the work performed to the date of a change in order to assume the responsibilities of an engagement partner.

Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialized Area of Accounting or Auditing Is Used (Ref: Para. 15-17)

A20. Where a member of the engagement team with expertise in a specialized area of accounting or auditing is used, direction, supervision and review of that engagement team member's work may include matters such as: Agreeing with that member the nature, scope and objectives of that member's work; and the respective roles of, and the nature, timing and extent of communication between that member and other members of the engagement team.

Evaluating the adequacy of that member's work including the relevance and reasonableness of that member's findings or conclusions and their consistency with other audit evidence.

A21. Effective consultation on significant technical, ethical, and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:

Are given all the relevant facts that will enable them to provide informed advice; and

Have appropriate knowledge, seniority and experience.

A22. It may be appropriate for the engagement team to consult outside the firm, for example, where the firm lacks appropriate internal resources. They may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.

Engagement Quality Control Review

Completion of the Engagement Quality Control Review before Dating of the Auditor's Report (Ref: Para. 19(c))

A23. ISA 700 (Redrafted) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.⁸ In cases of an audit of financial statements of listed entities or when an engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

A24. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.

A25. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 20-21, and where applicable, compliance with paragraph 22. Documentation of the engagement quality control review may be completed after the date of the auditor's report as part of the assembly of the final audit file. ISA 230 (Redrafted) establishes requirements and provides guidance in this regard.

Nature, Extent and Timing of Engagement Quality Control Review (Ref: Para. 20)

A26. Remaining alert for changes in circumstances allows the engagement partner to identify situations in which an engagement quality control review is necessary, even though at the start of the engagement, such a review was not required.

A27. The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is a listed entity, and the risk

Engagement Quality Control Review of Listed Entities (Ref: Para. 21)

A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include:

Significant risks identified during the engagement in accordance with ISA 315 (Redrafted),¹⁰ and the responses to those risks in accordance with ISA 330 (Redrafted),¹¹ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240 (Redrafted).¹²

Judgments made, particularly with respect to materiality and significant risks.

The significance and disposition of corrected and uncorrected misstatements identified during the audit.

The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.

Considerations Specific to Smaller Entities (Ref: Para. 20-21)

A29. In addition to the audits of financial statements of listed entities, an engagement quality control review is required for audit engagements that meet the criteria

established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.

Considerations Specific to Public Sector Entities (Ref: Para. 20-21)

- A30. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.
- A31. Listed entities as referred to in paragraphs 21 and A28 are not common in the public sector. However, there may be other public sector entities that are significant due to size,

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13 ISQC 1 (Redrafted), paragraph 48.

Complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.

Monitoring (Ref: Para. 23)

- A32. ISQC 1 (Redrafted) requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control is relevant, adequate and operating effectively.¹³
- A33. In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.
- A34. A deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and regulatory and legal requirements, or that the auditor's report was not appropriate.

Documentation

Documentation of Consultations (Ref: Para. 24(d))

- A35. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

The issue on which consultation was sought; and

The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

APPENDIX 1

ICAZ PRACTICE REVIEWS POLICY

FRAMEWORK

Practice reviews are performed as a requirement by ICAZ on its practicing members and member firms. They are performed as part of self regulation by the Institute. They are intended to promote the integrity of the auditing profession and protect the public interest among other objectives.

Firm reviews apply the IFAC International Statement on Quality Control I (ISQC) and the Code of Ethics for Professional Accountants to audit the firm's system of quality control and ethical discharge of the firm's responsibilities.

Engagement reviews inspect compliance with IFAC International Standards on Auditing by the practitioners being reviewed.

The overall benefit of practice reviews is to promote the integrity of the auditing profession. Above all, it is an IFAC membership obligation that ICAZ as a member of IFAC should carry out Practice Reviews on its member firms and practitioners.

ICAZ will adopt a cycle based review process as opposed to a risk based process. Generally audit risk in Zimbabwe is overallly high because of the state of the economic environment. Pressures/forces/circumstances that have a potential of causing audit failure are high for all practicing firms and practitioners. It is however, recognized that some firms have internal procedures and processes to reduce the risk.

The length of the review cycle will take into account the frequency the partner is reviewed under the firm's internal monitoring programme, if any, as well as the results of the procedures performed in those internal initiatives.

It may be appropriate to review some members more frequently for example if the results of previous reviews were not satisfactory. ICAZ reserves the right to identify other appropriate reasons for conducting reviews more frequently.

SCOPE OF REVIEWS

The objectives of the practice reviews are to:-

(a) Through the firm reviews process, inspect the design and implementation of each firm's system of quality control organized under the following elements of quality control:-

- Leadership responsibilities
- Ethical requirements

- Client acceptance and continuance
 - Human resources
 - Engagement performance, and
 - Monitoring
- (b) Through the engagement reviews process, inspect selected practitioners' compliance with the relevant International Standards on Auditing in the performance of the attest function.

Firm Reviews:-

Firm reviews involve examination of a variety of evidence to understand the design of a firm's system of quality control and assess the effectiveness of its implementation. This evidence includes:-

- (a) Policy & procedure manuals
- (b) Quality related communicators for the firm's leadership to its partners and staff
- (c) Independence confirmations
- (d) Client acceptance and continuance documentation
- (e) Personal files
- (f) Consultations that took place during the audit engagements on difficult or contentious matters
- (g) The results of the firm's own quality-monitoring program

As part of the firm review process, interviews are carried out with the senior executives in each firm who have management responsibilities relating to audit quality. Questionnaires are completed by a sample of professional staff to assess their experience and understanding of the application of the firm's system of quality control.

METHODOLOGY

Firm Reviews:-

Audit firms which audit quoted companies, financial institutions and other economically significant entities are subjected to this review. Economically significant entities will include but not limited to:-

- State Enterprises.
- Universities,
- Large Local Authorities, and
- Bank, Financial institutions & Insurance Companies

Our team of reviewers will review the quality controls required by ISQCI and Code of Ethics for Professional Accountants that are in place at the audit firm. The review findings are discussed with the firm and put into report format. This report is considered on an anonymous basis by the Practice Review Committee

who make a decision on the outcome of the review. These firm reviews require a minimum of one reviewer for 10 days up to a maximum of reviewers and number of days determined by the size of the firm for large firms

Engagement Reviews:-

Two audit files, are randomly or judgmentally selected by us from the selected registered attest practitioners' client list. The selected files are reviewed by our team for compliance by the practitioner with the professional standards in the performance of the audit.

The review findings are discussed with the practitioner and put into report format. The Practice Review Committee considers this report on an anonymous basis and makes a decision on the outcome of the review. This decision is based on pre-determined review criteria, set by the Committee for specific review cycle.

These reviews require one reviewer for a period of 1 to 3 days per attest practitioner.

Selection for reviews:-

Both small and large firms are selected for reviews. Our view is that the need for these reviews is the same for all firms, big or small.

Exception from Review

The only practitioner who is not subject to practice review is a person whose sole audit is of a non-profit making club\organization of which he\she is a member and for which he\she does not charge an audit fee (i.e. honorary audits where one is a member of the club\organization).

Review Cycles

The reviews are done in cycles. A practitioner must first be found to be satisfactory in a review cycle before proceeding to the next review cycle.

Files Selected for Reviews:-

Practitioners may not interfere in the reviewers' file selection process. Reviewers consider the following general guidelines when selecting audit files to be reviewed:-

- (a) The audit opinion has been issued.
- (b) The audit opinion has been signed by the practitioner being reviewed.
- (c) The audit opinion is dated not earlier than 18 months from the review date (or 12 months in the case of a re-review).
- (d) The file is not subject to litigation.
- (e) The file is a continuing engagement.

Review Reports:-

The report issued on the findings of a review notes all areas of non-documentation identified by the reviewer. All findings reported require the practitioners' undertaking to implement corrective action. However, all findings do not necessarily lead to a

re-review. If anyone of the review findings is in the re-review criteria, a re-review within one year will result.

Re-Review Criteria:-

In carrying out the review the reviewer examines documented evidence of the nature, timing and extent of audit procedures performed. Verbal representations by the practitioner regarding the procedures performed are not accepted.

In making a recommendation to the Practice Review Committee on the result of the review, the reviewer makes an overall qualitative assessment of the risk of failure to comply with professional standards.

Any **ONE** of the following will cause re-review:

Inadequate documentation and/or insufficient/inappropriate audit evidence to support the:

1. Verification of opening balances on initial engagements.
2. Understanding of the accounting and internal control systems for all material balances and classes of transactions.
3. Tests of controls where reliance is placed on controls or where reliance should have been placed on controls because substantive procedures alone would not provide sufficient appropriate audit evidence.
4. Assessment of risk at the assertion level for material classes of transactions, account balances and presentation and disclosure, and appropriate response thereto.
5. Fraud and error considerations.
6. Procedures performed when relying on experts/internal auditors/service organizations.
7. Evaluation of unadjusted audit differences.
8. Subsequent event procedures.
9. Going concern considerations
10. Audit report.
11. Compliance with relevant accounting framework, statutory and regulatory requirements.
12. Independence and ethics requirements.
13. Verification of material financial statement items.
14. Verification of material journal entries.

Please note: The Practice Review Committee may expand these criteria as and when considered necessary

Results of Reviews:-

Based on the review findings, we make a qualitative assessment of the degree of risk resulting from the practitioner's failure to comply with professional standards and formulate a recommendation to the practice review committee as follow:-

REVIEW CYCLES

A RA/Firm must be found satisfactory in a review cycle before proceeding to the next cycle. Engagement reviews are either on a 3 year or a 6 year review cycle, depending on the classification of the RAs attest portfolio. Firm reviews are on a 3 year review cycle.

PRACTICE REVIEW PROCESS

A broad overview of the practice review process is as follows:

- Schedule review date 4 weeks in advance
- Request pre-review information from RA/Firm
- Perform review of RA/Firm
- Discuss review findings with RA/Firm (no third party attendance allowed)
- Obtain comments from RA/Firm on review findings within specified time frame
- Prepare formal review report (which includes review findings and comments received) and make recommendation on review result in terms of re-review criteria
- Perform review quality control checks
- Bill RA/firm for costs of review
- Present formal review report to Practice Review Committee on an anonymous Basis. Manager Practice Reviews relays Committee decision to RA/Firm
- Receive undertaking from RA/Firm to implement corrective action

RESULTS OF THE REVIEW

Review decision is either:

Satisfactory = review in next review cycle, or

Re-review = review in one year's time, or

Disciplinary Committee referral = disciplinary action by the Institute

Referral to Investigating Committee if:

- public is at risk, or
- re-review indicates failure to implement corrective action, or
- flagrant disregard of professional standards, or
- refusal to co-operate in the review process

PRACTICE REVIEW COMMITTEE

The Practice Review Committee comprises people who serve on a voluntary basis. The committee is composed of members from big practicing firms, small/medium sized practicing firms, non-practicing members and a council member. Its responsibilities include:

- determining the nature of attest engagements subject to practice review,
- determining the re-review criteria for each review cycle,
- determining the appropriateness of the standard documentation used in the review process
- determining the outcome of reviews on an anonymous basis, and
- assessing the quality and consistency of review reports.

RECONSIDERATIONS

Should an RA/Firm believe a re-review decision of the Practice Review Committee should be reconsidered due to the Committee not having sufficient information available at the time the initial decision was made, they have 30 calendar days from the Practice Review Committee decision date to submit a detailed written request for reconsideration to the Manager Practice Review. This request will then be placed before the Practice Review Committee, on an anonymous basis, at its next meeting for consideration. The Manager Practice Review will relay the Committee's final decision to the RA/firm. Only one request reconsideration on a re-review result per RA/firm will be permitted.

COSTS

The subscription fee and practicing certificate fee RAs/Firms pay to the Institute do not cover the cost of practice review, for which RAs/Firms are billed separately.

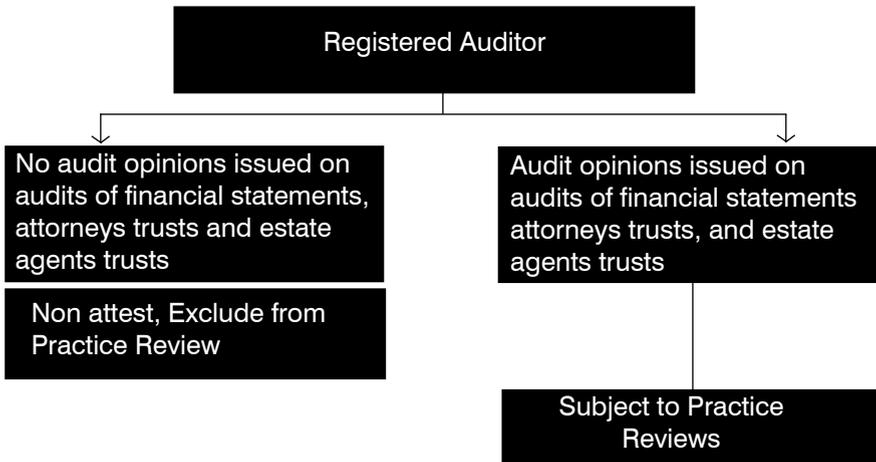
CANCELLATION

RAs/Firms receive a minimum of 4 weeks notice prior to their review visit. Cancellation fees are charged where review visits are cancelled by RAs/firms at short notice.

CONFIDENTIALITY

The confidentiality requirements of professional ethics are strictly respected and enforced on reviewers by ICAZ. Documentation pertaining to the completed review cycle of an RA/Firm is not retained

REVIEW DECISION TREE



Engagement review = covers International Standards on Auditing.
 Firm review = covers International Standards on Quality Control

APPENDIX 2

This appendix is an extract of IFAC's International Education Standard (IES) 7 Appendix.

The Appendix is illustrative only and does not form part of the IES. The purpose of the Appendix is to illustrate the application of the IES to assist in clarifying its meaning.

This Appendix provides examples of different types of learning activities and how such learning can be verified under input- and output-based approaches to Continuing Professional Development (CPD).

Examples of Planning Tools

The following tools may assist professional accountants to identify learning and development needs, and plan ways of addressing these needs.

Tools, such as competency maps and learning plans, may be useful to member bodies and professional accountants to identify relevant learning needs and opportunities. Competency maps help identify development needs. Learning plans help identify learning opportunities to meet these needs. These tools need to be reviewed periodically and modified as competency needs change.

Competency Map

A competency map can assist professional accountants to identify training and development needs before identifying relevant learning activities. Competency maps provide a list of key competences for certain roles or sectors of the profession, at different levels (e.g. basic, intermediate, advanced). The competency map can assist professional accountants to assess their current levels of competence and identify targets for development. Competency maps have been developed by some IFAC member bodies, and by some employers to assist professional accountants plan and develop their careers.

Learning Plan

A learning plan assists professional accountants to identify training and development needs and ways in which to meet those needs. Professional accountants are encouraged to review their current skills and competences (a competency map, described above, can assist with this) against a target. Once these development needs have been identified, the professional accountant can then source relevant learning activities to help develop the required skills and competences. More than one learning activity may be required to develop the required skills and competences. Some member bodies have developed interactive tools to help assess competence and plan how to develop and maintain competence.

Learning Activities, Measurement Tools, and Evidence

The following lists provide examples of different learning activities, how learning could potentially be measured, and the different types of evidence for input- and output-based approaches. Any of these could be carried out using electronic

means and e-learning opportunities. In considering these examples, member bodies are expected to comply with the intent of paragraphs 35, 37 and 38 of this IES. The following examples may constitute CPD to the extent the individual professional accountant has developed capabilities in the course of undertaking the activity.

Examples of Learning Activities

- Participation in courses, conferences, seminars
- Self-learning modules or organized on-the-job training for new software, systems, procedures or techniques for application in professional role
- Published professional or academic writing
- Participation and work on technical committees
- Teaching a course or CPD session in an area related to professional responsibilities
- Formal study related to professional responsibilities
- Participation as a speaker in conferences, briefing sessions, or discussion groups
- Writing technical articles, papers, books
- Research, including reading professional literature or journals, for application in a professional role
- Professional re-examination or formal testing

One single, repetitive activity, for example, teaching introductory accounting to different audiences, should not constitute a member's total CPD activity.

Examples of Measurement Units

In considering the following measurement units, it should be noted that the IES measures input-based approaches in terms of hours. Any alternative unit of measurement should be equivalent to one hour of classroom time or its substantial equivalent (refer paragraphs 33 and 34).

- Time spent on an activity
- Units allocated to an activity by a CPD provider
- Units prescribed by a member body

Evidence for Verification in an Input-based Approach

- Course outlines, teaching materials
- Attendance record, registration forms or confirmation of registration from provider
- Independent assessments that a learning activity has occurred
- Confirmation by an instructor, mentor or tutor of participation
- Confirmation by an employer of participation in an in-house program

Evidence for Verification in an Output-based Approach

- Verification of learning achieved through learning or performance outcomes
- Evaluation of written or published material by a reviewer
- Assessments of learning outcomes achieved
- Publication of a professional article or of the results of a research project
- Periodic re-examination
- Specialist or other qualification
- Work logs that have been objectively verified with reference to an external competency map
- Competency maps developed by the member body against which the member completes a self-assessment and provides supporting evidence on request
- Objective assessments against a competency map developed either by the employer or by the professional body as to the individual's level of competence

The following sources of evidence, if verified as applying to the individual member, may provide evidence of competence about that individual member:

- Independent practice inspections
- Assessments or signoffs by specialty associations that document enhancements of competences, and assessments by regulators, e.g., government reviews of licensed banks.

TO VIEW THE IES7 PLEASE VIST THE IFAC WEBSITE, www.ifac.org.

APPENDIX 3

THE INSTITUTE'S RECIPROCAL AGREEMENTS AS OF 31 DECEMBER 2008

The Institute has reciprocal agreements with the following Institutes:

1. The Institute of Chartered Accountants of England & Wales (ICAEW)
2. The South African Institute of Chartered Accountants (SAICA)
3. Institute of Chartered Accountants in Ireland
4. Institute of Chartered Accountants Scotland
5. The Hong Kong Institute of Certified Public Accountants.
6. Institute of Chartered Accountants of Australia (ICAA)