

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**SECTION 200****Introduction**

- 200.1 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to registered auditors. This Part does not describe all of the circumstances and relationships that could be encountered by a registered auditor that create or may create threats to compliance with the fundamental principles. Therefore, the registered auditor is encouraged to be alert for such circumstances and relationships.
- 200.2 A registered auditor shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Threats and Safeguards

- 200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client and whether the audit client is a public interest entity, to an assurance client that is not an audit client, or to a non-assurance client.

Threats fall into one or more of the following categories:

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

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

- 200.4 Examples of circumstances that create self-interest threats for a registered auditor include:
- A member of the assurance team having a direct financial interest in the assurance client.
 - A firm having undue dependence on total fees from a client.
 - A member of the assurance team having a significant close business relationship with an assurance client.
 - A firm being concerned about the possibility of losing a significant client.
 - A member of the audit team entering into employment negotiations with the audit client.
 - A firm entering into a contingent fee arrangement relating to an assurance engagement.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- A registered auditor discovering a significant error when evaluating the results of a previous professional service performed by a member of the registered auditor's firm.
- 200.5 Examples of circumstances that create self-review threats for a registered auditor include:
- A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
 - A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement.
 - A member of the assurance team being, or having recently been, a director or officer of the client.
 - A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.
 - The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement.
- 200.6 Examples of circumstances that create advocacy threats for a registered auditor include:
- The firm promoting shares in an audit client.
 - A registered auditor acting as an advocate on behalf of an audit client in litigation or disputes with third parties.
- 200.7 Examples of circumstances that create familiarity threats for a registered auditor include:
- A member of the engagement team having a close or immediate family member who is a director or officer of the client.
 - A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
 - A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.
 - A registered auditor accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
 - Senior personnel having a long association with the assurance client.
- 200.8 Examples of circumstances that create intimidation threats for a registered auditor include:
- A firm being threatened with dismissal from a client engagement.
 - An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client's accounting treatment for a particular transaction.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- A firm being threatened with litigation by the client.
- A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- A registered auditor feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- A registered auditor being informed by a partner of the firm that a planned promotion will not occur unless the registered auditor agrees with an audit client's inappropriate accounting treatment.

200.9 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

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

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.14 of Part A of this Code.

200.10 A registered auditor shall exercise judgment to determine how best to deal with threats that are not at an acceptable level, whether by applying safeguards to eliminate the threat or reduce it to an acceptable level or by terminating or declining the relevant engagement. In exercising this judgment, a registered auditor shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the registered auditor at that time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement-specific safeguards.

200.12 Examples of firm-wide safeguards in the work environment include:

- 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 need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- 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 assurance clients and related entities from which independence is required.
 - 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 Examples of engagement-specific safeguards in the work environment include:
- Having a *registered auditor* who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
 - Having a *registered auditor* who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
 - Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another *registered auditor*.
 - Discussing ethical issues with those charged with governance of the client.
 - Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
 - Involving another firm to perform or re-perform part of the engagement.
 - Rotating senior assurance team personnel.
- 200.14 Depending on the nature of the engagement, a *registered auditor* 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.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

200.15 Examples of safeguards within the client's systems and procedures include:

- The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement. 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.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**SECTION 210****Professional Appointment***Client Acceptance*

- 210.1 Before accepting a new client relationship, a registered auditor shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management or 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 A registered auditor shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level.
- Examples of such safeguards include:
- 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.
- 210.4 Where it is not possible to reduce the threats to an acceptable level, the registered auditor shall decline to enter into the client relationship.
- 210.5 It is recommended that a registered auditor periodically review acceptance decisions for recurring client engagements.

Engagement Acceptance

- 210.6 The fundamental principle of professional competence and due care imposes an obligation on a registered auditor to provide only those services that the registered auditor is competent to perform. Before accepting a specific client engagement, a registered auditor shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.
- 210.7 A registered auditor shall evaluate the significance of threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards 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.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- 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.

210.8 When a registered auditor intends to rely on the advice or work of an expert, the registered auditor shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

210.9 A registered auditor who is asked to replace another registered auditor, or who is considering tendering for an engagement currently held by another registered auditor, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an acceptable level by the application of safeguards. For example, there may be a threat to professional competence and due care if a registered auditor accepts the engagement before knowing all the pertinent facts.

210.10 A registered auditor shall evaluate the significance of any threats. Depending on the nature of the engagement, this may require direct communication with the existing auditor to establish the facts and circumstances regarding the proposed change so that the registered auditor 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 auditor that may influence the decision to accept the appointment.

210.11 Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing auditor 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;
- Asking the existing auditor to provide known information on any facts or circumstances that, in the existing auditor's opinion, the proposed auditor needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources.

When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a registered auditor shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

210.12 A registered auditor may be asked to undertake work that is complementary or additional to the work of the existing auditor. Such circumstances may create threats

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is notifying the existing auditor of the proposed work, which would give the existing auditor the opportunity to provide any relevant information needed for the proper conduct of the work.

- 210.13 An existing auditor is bound by confidentiality. Whether that *registered auditor* is permitted or required to discuss the affairs of a client with a proposed auditor 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.

The proposed auditor shall treat in the strictest confidence and give due weight to any information provided by the existing auditor. Circumstances where the *registered auditor* is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of Part A of the Code.

- 210.14 A *registered auditor* will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an existing auditor. Once that permission is obtained, the existing auditor shall comply with relevant legal and other regulations governing such requests. Where the existing auditor provides information, it shall be provided honestly and unambiguously. If the proposed auditor is unable to communicate with the existing auditor, the proposed auditor shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.

- 210.15 Where the proposed client refuses to give permission for the proposed registered auditor to communicate with the existing auditor, or fails to do so, the proposed registered auditor shall decline the appointment, unless there are exceptional circumstances of which the proposed registered auditor has full knowledge, and the proposed registered auditor has satisfied themselves regarding all relevant facts, by some other means. If permission is not granted, the existing auditor shall report that fact to the proposed registered auditor.*

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

SECTION 220

Conflicts of Interest

- 220.1 A registered auditor shall take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may create threats to compliance with the fundamental principles. For example, a threat to objectivity may be created when a registered auditor 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 registered auditor 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 registered auditor shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. Before accepting or continuing a client relationship or specific engagement, the registered auditor shall evaluate the significance of any threats created by business interests or relationships with the client or a third party.
- 220.3 Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards is generally necessary:
- (a) Notifying the client of the firm's business interest or activities that may represent a conflict of interest and obtaining their consent *in writing* to act in such circumstances; or
 - (b) Notifying all known relevant parties that the registered auditor 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 registered auditor 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 registered auditor shall also determine whether to apply one or more of the following additional safeguards:
- (a) The use of separate engagement teams;
 - (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing);
 - (c) Clear guidelines for members of the engagement team on issues of security and confidentiality;
 - (d) The use of confidentiality agreements signed by employees and partners of the firm; and
 - (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- 220.5 Where a conflict of interest creates a threat to one or more of the fundamental principles, including objectivity, confidentiality, or professional behaviour, that cannot be eliminated or reduced to an acceptable level through the application of

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

safeguards, the registered auditor shall not accept a specific engagement or shall resign from one or more conflicting engagements.

- 220.6 Where a registered auditor 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, the registered auditor shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**SECTION 230****Second Opinions**

- 230.1 Situations where a registered auditor 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 auditor or is based on inadequate evidence. The existence and significance of any threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 230.2 When asked to provide such an opinion, a registered auditor shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include seeking client permission to contact the existing auditor describing the limitations surrounding any opinion in communications with the client and providing the existing auditor with a copy of the opinion.
- 230.3 If the company or entity seeking the opinion will not permit communication with the existing auditor, a registered auditor shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**SECTION 240****Fees and Other Types of Remuneration**

- 240.1 When entering into negotiations regarding professional services, a registered auditor may quote whatever fee is deemed appropriate. The fact that one registered auditor may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.
- 240.2 The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
- 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.
 - Maintaining the appropriate records of time spent, staff assigned to the engagement and basis of fees charged.
- 240.3 Contingent fees are widely used for certain types of non-assurance engagements². They may, however, create threats to compliance with the fundamental principles in certain circumstances. They may create a self-interest threat to objectivity. The existence and significance of such threats will depend on factors including:
- 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 any such threats shall be evaluated and safeguards applied when necessary to eliminate or reduce them to an acceptable level. Examples of such safeguards include:
- An advance written agreement with the client as to the basis of remuneration.
 - Disclosure to intended users of the work performed by the registered auditor and the basis of remuneration.
 - Quality control policies and procedures.

² Contingent fees for non-assurance services provided to audit clients and other assurance clients are discussed in Sections 290 and 291 of this Part of the Code

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- Review by an independent third party of the work performed by the registered auditor.

240.4A Notwithstanding paragraphs 240.3 and 240.4 above, a registered auditor shall not charge contingent fees for assurance services provided to clients nor for the preparation of an original or amended tax return as these services are regarded as creating a self interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.

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

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

240.7 The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. ~~Examples of such safeguards include~~ Irrespective of the significance of the threat evaluated, a registered auditor shall:

- Disclose to the client in advance any arrangements to pay a referral fee to another registered auditor for the work referred.
- Disclose to the client in advance any arrangements to receive a referral fee for referring the client to another registered auditor.
- Obtain agreement in advance 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 registered auditor may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**SECTION 250****Marketing Professional Services**

- 250.1 When a registered auditor solicits new work through advertising or other forms of marketing, there may be a threat to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behaviour is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.
- 250.2 A registered auditor shall not bring the profession into disrepute when marketing professional services. The registered auditor shall be honest and truthful and shall not:
- Make exaggerated claims for services offered, qualifications possessed, or experience gained; or
 - Make disparaging references or unsubstantiated comparisons to the work of another.

If the registered auditor is in doubt about whether a proposed form of advertising or marketing is appropriate, the registered auditor shall consider consulting with the Board ~~or relevant professional body~~.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

SECTION 260

Gifts and Hospitality

- 260.1 A registered auditor, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.
- 260.2 The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, a registered auditor 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 registered auditor may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.
- 260.3 A registered auditor shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a registered auditor shall not accept such an offer.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

SECTION 270

Custody of Client Assets

- 270.1 A *registered auditor* shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a *registered auditor* holding such assets.
- 270.2 The holding of client assets creates threats to compliance with the fundamental principles. For example, there is a self-interest threat to professional behaviour and may be a self interest threat to objectivity arising from holding client assets. A *registered auditor* entrusted with money (or other assets) belonging to others shall therefore:
- (a) Keep such assets separately from personal or firm assets;
 - (b) Use such assets only for the purpose for which they are intended;
 - (c) At all times be ready to account for those assets and any income, dividends, or gains generated, to any persons entitled to such accounting; and
 - (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.
- 270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a *registered auditor* shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if the *registered auditor has reason to believe that the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the registered auditor shall not accept or hold the client monies and may consider seeking legal advice, inter alia, with regard to regulatory reporting responsibilities.*
- 270.4 When a registered auditor in the course of providing professional services is entrusted with client monies, or property other than monies belonging to others, the registered auditor shall –
- (a) for all clients monies which come into the registered auditor's possession or under the registered auditor's control, and for which the registered auditor is liable to account to a client or any other person:
 - (i) maintain one or more bank accounts with an institution or institutions registered in terms of the Banks Act, 1990 (Act 94 of 1990) that are separate from the registered auditor's own bank account; and
 - (ii) appropriately designate such accounts (which account or accounts may be a general account in the registered auditor's name or specific accounts operated in the names of the relevant clients or any other person to whom the registered auditor is accountable); and
 - (iii) deposit client monies without delay to the credit of such client account indicated in (a) (i) and (a) (ii) above; and

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- (b) for property other than money which comes into the registered auditor's possession or under the registered auditor's control and for which the registered auditor is liable to account to a client or to any other person including, but without limitation, trust property which is expressly registered in the name of the registered auditor, or jointly in the name of the registered auditor and any other person, in their capacity as administrator, trustee, curator or agent, as the case may be), the registered auditor shall -
- (i) maintain such records as may be reasonably expected to ensure that the property can readily be identified as being the property of such client or other person; and
- (ii) if the property is in the form of documents of title to money, or documents of title that can be converted into money, shall make such arrangements as may be appropriate in the circumstances to safeguard such documents against unauthorised use.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

SECTION 280

Objectivity—All Services

- 280.1 A registered auditor shall determine when providing any professional service whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or its directors, officers or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.
- 280.2 A registered auditor who provides an assurance service shall be independent of the assurance client. Independence of mind and in appearance is necessary to enable the registered auditor to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Sections 290 and 291 provide specific guidance on independence requirements for registered auditors when performing assurance engagements.
- 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 registered auditor is performing.
- 280.4 A registered auditor shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:
- 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.

If safeguards cannot eliminate or reduce the threat to an acceptable level, the registered auditor shall decline or terminate the relevant engagement.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

SECTION 290

INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

CONTENTS

	Paragraph
Structure of Section	290.1
A Conceptual Framework Approach to Independence	290.4
Networks and Network Firms	290.13
Public Interest Entities	290.25
Related Entities	290.27
Those Charged with Governance	290.28
Documentation	290.29
Engagement Period	290.30
Mergers and Acquisitions	290.33
Other Considerations	290.39
Application of the Conceptual Framework Approach to Independence	290.100
Financial Interests	290.102
Loans and Guarantees	290.118
Business Relationships	290.124
Family and Personal Relationships	290.127
Employment with an Audit Client	290.134
Temporary Staff Assignments	290.142
Recent Service with an Audit Client	290.143
Serving as a Director or Officer of an Audit Client	290.146
Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client	290.150
Provision of Non-assurance Services to Audit Clients	290.156
Management Responsibilities	209.162
Preparing Accounting Records and Financial Statements	290.167
Valuation Services	290.175
Taxation Services	290.181
Internal Audit Services	290.195
IT Systems Services	290.201
Litigation Support Services	290.207
Legal Services	290.209

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Recruiting Services	290.214
Corporate Finance Services	290.216
Fees	290.220
Fees—Relative Size	290.220
Fees—Overdue	290.223
Contingent Fees	290.224
Compensation and Evaluation Policies	290.229
Gifts and Hospitality	290.231
Actual or Threatened Litigation	290.232
Reports that Include a Restriction on Use and Distribution	290.500

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**Structure of Section**

- 290.1 This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which a registered auditor expresses a conclusion on financial statements. Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement. Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.
- 290.2 In certain circumstances involving audit engagements where the audit report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in paragraphs 290.500 to 290.514. The modifications are not permitted in the case of an audit of financial statements required by law or regulation.
- 290.3 In this section, the term(s):
- “Audit,” “audit team,” “audit engagement,” “audit client” and “audit report” includes review, review team, review engagement, review client and review report; and
 - “Firm” includes network firm, except where otherwise stated.

A Conceptual Framework Approach to Independence

- 290.4 In the case of audit engagements, it is in the public interest and, therefore, required by this Code, that members of audit teams, firms and network firms shall be independent of audit clients.
- 290.5 The objective of this section is to assist firms and members of audit teams in applying the conceptual framework approach described below to achieving and maintaining independence.
- 290.6 Independence comprises:
- Independence of Mind*
- The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.
- Independence in Appearance*
- The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's or a member of the audit team's, integrity, objectivity or professional scepticism has been compromised.
- 290.7 The conceptual framework approach shall be applied by registered auditors to:
- (a) Identify threats to independence;
 - (b) Evaluate the significance of the threats identified; and
 - (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

When the registered auditor determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the registered auditor shall eliminate the circumstance or relationship creating the threats or decline or terminate the audit engagement.

A registered auditor shall use professional judgment in applying this conceptual framework.

- 290.8 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of audit teams to identify, evaluate, and address threats to independence. The conceptual framework approach assists registered auditors in practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence and can deter a registered auditor from concluding that a situation is permitted if it is not specifically prohibited.
- 290.9 Paragraphs 290.100 and onwards describe how the conceptual framework approach to independence is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence.
- 290.10 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit team, a firm shall identify and evaluate threats to independence. If the threats are not at an acceptable level, and the decision is whether to accept an engagement or include a particular individual on the audit team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.
- 290.11 Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.
- 290.12 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organisation of a firm. The firm is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**Networks and Network Firms**

- 290.13 If a firm is deemed to be a network firm, the firm shall be independent of the audit clients of the other firms within the network (unless otherwise stated in this Code). The independence requirements in this section that apply to a network firm shall apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.
- 290.14 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.
- 290.15 The judgment as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network.
- 290.16 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.
- 290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.
- 290.18 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
- 290.19 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.
- 290.20 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.

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

Public Interest Entities

- 290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- (a) All listed entities; and
 - (b) Any entity defined by regulation or legislation as a public interest entity or for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator such as the Board.
- 290.26 Firms ~~and member bodies~~ are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:
- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
 - Size; and
 - Number of employees.

Related Entities

- 290.27 In the case of an audit client that is a listed entity, references to an audit client in this section include related entities of the client (unless otherwise stated). For all other audit clients, references to an audit client in this section include related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

Those Charged with Governance

- 290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to: (a) consider the firm's judgments in identifying and evaluating threats to independence; (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and (c) take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

Documentation

- 290.29 Documentation provides evidence of the registered auditor's judgments in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether a firm considered a particular matter or whether it is independent.

The registered auditor shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- (a) When safeguards are required to reduce a threat to an acceptable level, the registered auditor shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and
- (b) When a threat required significant analysis to determine whether safeguards were necessary and the registered auditor concluded that they were not because the threat was already at an acceptable level, the registered auditor shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

- 290.30 Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.
- 290.31 When an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:
- Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
 - Previous services provided to the audit client.
- 290.32 If a non-assurance service was provided to the audit client during or after the period covered by the financial statements but before the audit team begins to perform audit services and the service would not be permitted during the period of the audit engagement, the firm shall evaluate any threat to independence created by the service. If a threat is not at an acceptable level, the audit engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:
- Not including personnel who provided the non-assurance service as members of the audit team;
 - Having a registered auditor review the audit and non-assurance work as appropriate; or
 - Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

Mergers and Acquisitions

- 290.33 When, as a result of a merger or acquisition, an entity becomes a related entity of an audit client, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

290.34 The firm shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code. However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity is unable by the effective date to effect an orderly transition to another service provider of a non-assurance service provided by the firm, the firm shall evaluate the threat that is created by such interest or relationship. The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:

- The nature and significance of the interest or relationship;
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and
- The length of time until the interest or relationship can reasonably be terminated.

The firm shall discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.

290.35 If those charged with governance request the firm to continue as auditor, the firm shall do so only if:

- (a) the interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of the effective date of the merger or acquisition;
- (b) any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted under this section, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and
- (c) appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance. Examples of transitional measures include:
 - Having a registered auditor review the audit or non-assurance work as appropriate;
 - Having a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is equivalent to an engagement quality control review; or
 - Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

290.36 The firm may have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and may be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

continuing with an interest or relationship identified in 290.33, the firm shall do so only if it:

- (a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance;
- (b) Complies with the requirements of paragraph 290.35 (ii)–(iii); and
- (c) Ceases to be the auditor no later than the issuance of the audit report.

290.37 When addressing previous and current interests and relationships covered by paragraphs 290.33 to 290.36, the firm shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the auditor.

290.38 The registered auditor shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

Other Considerations

290.39 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence provided the firm has appropriate quality control policies and procedures in place, equivalent to those required by International Standards on Quality Control, to maintain independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level. The firm shall determine whether to discuss the matter with those charged with governance.

Paragraphs 290.40 to 290.99 are intentionally left blank.

Application of the Conceptual Framework Approach to Independence

290.100 Paragraphs 290.102 to 290.231 describe specific circumstances and relationships that create or may create threats to independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and identify certain situations where no safeguards could reduce the threats to an acceptable level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence. The firm and the members of the audit team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to independence or reduce them to an acceptable level.

290.101 Paragraphs 290.102 to 290.126 contain references to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

combined net worth of the individual and the individual's immediate family members may be taken into account.

Financial Interests**Introduction**

290.102 Holding a financial interest in an audit client may create a self-interest threat. The existence and significance of any threat created depends on: (a) the role of the person holding the financial interest, (b) whether the financial interest is direct or indirect, and (c) the materiality of the financial interest.

290.103 Financial interests may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.

Financial interest in an audit client

290.104 If a member of the audit team, a member of that individual's immediate family or a firm has a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither a member of the audit team, *nor* a member of that individual's immediate family, nor the firm shall have a direct financial interest or a material indirect financial interest in the client.

Close family holding a financial interest in an audit client

290.105 When a member of the audit team has a close family member who the audit team member knows has a direct financial interest or a material indirect financial interest in the audit client, a self-interest threat is created. The significance of the threat will depend on factors such as:

- The nature of the relationship between the member of the audit team and the close family member; and
- The materiality of the financial interest to the close family member.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;
- Having a *registered auditor* review the work of the member of the audit team; or
- Removing the individual from the audit team.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**Financial interest in an entity that is holding a financial interest in an audit client**

290.106 If a member of the audit team, a member of that individual's immediate family or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the audit client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have such a financial interest: a member of the audit team; a member of that individual's immediate family; and the firm.

Firm's retirement benefit plan holding a financial interest in an audit client

290.107 The holding by a firm's retirement benefit plan of a direct or material indirect financial interest in an audit client creates a self-interest threat. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Other partners holding a financial interest in an audit client

290.108 If other partners in the office in which the engagement partner practices in connection with the audit engagement, or their immediate family members, hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither such partners nor their immediate family members shall hold any such financial interests in such an audit client.

290.109 The office in which the engagement partner practices in connection with the audit engagement is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the audit team, professional judgment shall be used to determine in which office the partner practices in connection with that engagement.

Other partners and managerial employees providing non-audit services to an audit client and holding a direct or material indirect financial interest in that audit client

290.110 If other partners and managerial employees who provide non-audit services to the audit client, except those whose involvement is minimal, or their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither such personnel nor their immediate family members shall hold any such financial interests in such an audit client.

290.111 Despite paragraphs 290.108 and 290.110, the holding of a financial interest in an audit client by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit engagement, or (b) a partner or managerial employee who provides non-audit services to the audit client, is deemed not to compromise independence if the financial interest is received as a result of the immediate family member's employment rights (e.g., through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level. However, when the immediate family member has or obtains the right to dispose of

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest shall be disposed of or forfeited as soon as practicable.

290.112 A self-interest threat may be created if the firm or a member of the audit team, or a member of that individual's immediate family, has a financial interest in an entity and an audit client also has a financial interest in that entity. However, independence is deemed not to be compromised if these interests are immaterial and the audit client cannot exercise significant influence over the entity. If such interest is material to any party, and the audit client can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such an interest and any individual with such an interest shall, before becoming a member of the audit team, either:

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

290.113 A self-interest, familiarity or intimidation threat may be created if a member of the audit team, or a member of that individual's immediate family, or the firm, has a financial interest in an entity when a director, officer or controlling owner of the audit client is also known to have a financial interest in that entity. The existence and significance of any threat will depend upon factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the member of the audit team with the financial interest from the audit team; and
- Having a *registered auditor* review the work of the member of the audit team.

Financial interest in an audit client as a trustee

290.114 The holding by a firm, or a member of the audit team, or a member of that individual's immediate family, of a direct financial interest or a material indirect financial interest in the audit client as a trustee creates a self-interest threat. Similarly, a self-interest threat is created when (a) a partner in the office in which the engagement partner practices in connection with the audit, (b) other partners and managerial employees who provide non-assurance services to the audit client, except those whose involvement is minimal, or (c) their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client as trustee. Such an interest shall not be held unless:

- (a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

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

Where the absence of a conflict of interest cannot be clearly demonstrated, a registered auditor shall:

- (a) Avoid appointment as a trustee in any such situation; or
- (b) If appointed as a trustee, shall not be involved personally in the audit of the trust.

Known financial interests in an audit client held by other individuals

290.115 Members of the audit team shall determine whether a self-interest threat is created by any known financial interests in the audit client held by other individuals including:

- Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and
- Individuals with a close personal relationship with a member of the audit team.

Whether these interests create a self-interest threat will depend on factors such as:

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

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Removing the member of the audit team with the personal relationship from the audit team;
- Excluding the member of the audit team from any significant decision-making concerning the audit engagement; or
- Having a registered auditor review the work of the member of the audit team.

Financial interest received by way of an inheritance, gift or as a result of a merger

290.116 If a firm or a partner or employee of the firm, or a member of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client, for example, by way of an inheritance, gift or as a result of a merger and such interest would not be permitted to be held under this section, then:

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- (a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material;
- (b) If the interest is received by a member of the audit team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the individual shall be removed from the audit team; or
- (c) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.

Inadvertent violations

290.117 When an inadvertent violation of this section as it relates to a financial interest in an audit client occurs, it is deemed not to compromise independence if:

- (a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the audit client;
- (b) The actions in paragraph 290.116 (a)–(c) are taken as applicable; and
- (c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:
 - Having a registered auditor review the work of the member of the audit team; or
 - Excluding the individual from any significant decision-making concerning the audit engagement.

The firm shall determine whether to discuss the matter with those charged with governance.

Loans and GuaranteesA loan or guarantee of a loan from an audit client that is a bank

290.118 A loan, or a guarantee of a loan, to a member of the audit team, or a member of that individual's immediate family, or the firm from an audit client that is a bank or a similar institution may create a threat to independence. If the loan or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither a member of the audit team, a member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.

290.119 If a loan to a firm from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions, and it is material to the

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

audit client or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by a registered auditor from a network firm that is neither involved with the audit nor received the loan.

- 290.120 A loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution to a member of the audit team, or a member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

A loan or guarantee of a loan from an audit client other than a bank

- 290.121 If the firm or a member of the audit team, or a member of that individual's immediate family, accepts a loan from, or has a borrowing guaranteed by, an audit client, that is not a bank or similar institution, or any director, officer or principal shareholder of the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit team and the immediate family member, and (b) the client.

A loan or guarantee of a loan made to an audit client

- 290.122 Similarly, if the firm or a member of the audit team, or a member of that individual's immediate family, makes or guarantees a loan to an audit client or any director, officer or principal shareholder of the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit team and the immediate family member, and (b) the client.

Deposits or brokerage accounts with an audit client

- 290.123 If a firm or a member of the audit team, or a member of that individual's immediate family, has deposits or a brokerage account with an audit client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.

Business Relationships

- 290.124 A close business relationship between a firm, or a member of the audit team, or a member of that individual's immediate family, and the audit client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.

CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team.

If the business relationship is between an immediate family member of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

290.125 A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, in a closely-held entity when the audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity does not create threats to independence if:

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

290.126 The purchase of goods and services from an audit client by the firm, or a member of the audit team, or a member of that individual's immediate family, does not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the audit team.

Family and Personal Relationships*Introduction*

290.127 Family and personal relationships between a member of the audit team and a director or officer or certain employees (depending on their role) of the audit client may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the