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**BOARD NOTICE**

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**NOTICE 89 OF 2010**

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**NEW RULES REGARDING IMPROPER CONDUCT AND CODE OF PROFESSIONAL  
CONDUCT FOR REGISTERED AUDITORS**

Notice is hereby given, for general information, in accordance with the provisions of sections 10(1) and 59(8)(c) of the Auditing Profession Act 26 of 2005 (**"the Act"**), of the **repeal** of the Code of Professional Conduct (referred to in section 59(8)(c) of the Act) and paragraphs 2.1 to 2.1.21, inclusive thereof, of the "Old" Disciplinary Regulations (referred to in section 59(8)(b) of the Act), made under the Public Accountants' and Auditors' Act 80 of 1991 **and** the **adoption** of the Independent Regulatory Board for Auditors' **New Rules Regarding Improper Conduct and Code of Professional Conduct for Registered Auditors** with effect from **1 January 2011**, which are published hereunder.

For further assistance, enquiries may be directed to:

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**Mr B P Agulhas**

**Chief Executive Officer**

**Independent Regulatory Board for Auditors**

**ISSUED**

**1 JUNE 2010**



**Rules Regarding Improper Conduct and  
Code of Professional Conduct for  
Registered Auditors**

## RULES REGARDING IMPROPER CONDUCT

The mandate of the Independent Regulatory Board for Auditors (the IRBA) is to protect the public by regulating audits performed by registered auditors and developing and maintaining internationally comparable ethical and auditing standards for auditors and establishing measures that advance the implementation of appropriate standards of competence and good ethics, that promote investment and as a consequence employment in South Africa.

The statutory Committee for Auditor Ethics assists the Regulatory Board to determine what constitutes improper conduct by registered auditors by developing rules and guidelines for professional ethics, including a code of professional conduct.

Copies of the Rules Regarding Improper Conduct and Code of Professional Conduct for Registered Auditors may be downloaded free-of-charge from the IRBA website at <http://www.irba.co.za>

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**RULES REGARDING IMPROPER CONDUCT AND  
CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

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**CONTENTS**

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	<u>Pages</u>
Rules Regarding Improper Conduct .....	1 - 4
Code of Professional Conduct for Registered Auditors .....	5 - 126

## RULES REGARDING IMPROPER CONDUCT

These Rules Regarding Improper Conduct ("**these Rules**") repeal and replace the "Old" Disciplinary Rules 2.1 referred to in section 59(8)(c). These Rules are prescribed by the Board under section 4(1)(c) with effect from **1 January 2011**.

### 1. DEFINITIONS

In these Rules the terms below have the meanings assigned to them and any reference to any section in these Rules is a reference to the corresponding section in the Act -

- 1.1 "**the Act**" means the Auditing Profession Act, No. 26 of 2005 and any expression used in these Rules which is defined in the Act bears, unless the context indicates the contrary, the meaning assigned to it in the Act;
- 1.2 "**Regulatory Board**" means the Independent Regulatory Board for Auditors established by section 31;
- 1.3 "**the Code**" means the Code of Professional Conduct prescribed by the Regulatory Board in terms of section 4(1)(c);
- 1.4 "**firm**", in the context of these Rules, means:
  - (a) a partnership, company or sole proprietor referred to in section 382;
  - (b) An entity that controls the parties in (a), through ownership, management or other means; and
  - (c) An entity controlled by the parties in (a), through ownership, management or other means.
- 1.5 "**professional services**" in the context of these Rules, means services requiring accountancy or related skills performed by a registered auditor including accounting, auditing, review, other assurance and related services, taxation, management consulting and financial management services. These include but are not limited to:
  - (a) *Audit, review, other assurance and related services:*
    - (i) Financial statement audits, reviews, other assurance services and related services such as regulatory reporting, sustainability, compliance and performance reporting;
    - (ii) Company accounting advisory services such as preparation of accounting records and financial statements in accordance with recognised financial reporting standards and applicable statutes; and
    - (iii) Company statutory services;
  - (b) *Taxation services:*
    - (i) Tax return preparation and submission;
    - (ii) Tax calculations for the purpose of preparing accounting entries;
    - (iii) Tax planning and other tax advisory services; and
    - (iv) Assistance in the resolution of tax disputes;

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<sup>1</sup> Section 1 v. "Regulatory Board"

<sup>2</sup> Section 1 v. "firm"

# RULES REGARDING IMPROPER CONDUCT

- (c) *Advisory services:*
- (i) Accounting advisory and financial management advisory services: accounting support, conversion services for new and revised accounting standards, financial modeling and project management;
  - (ii) Business performance services: business effectiveness, people and change management, operational and business finance;
  - (iii) Internal audit: risk and compliance services, review and monitoring of internal controls, risk management, compliance services, corporate governance and audit committee advisory services;
  - (iv) Corporate finance services: mergers and acquisitions, valuations, infrastructure financing, debt and capital markets - due diligence reviews, transaction services and designated advisor services to listed companies;
  - (v) Corporate recovery services: liquidation and insolvency administration, curator bonis, administration of deceased estates, judicial management and trusteeships;
  - (vi) Financial risk management services: actuarial services, banking and risk advisory, regulatory and compliance services, technical accounting;
  - (vii) Information technology (IT) Advisory: security, privacy and continuity, enterprise resource planning; information system audit services, IT project advisory, governance and performance;
  - (viii) Forensic services: dispute advisory and resolution, ethics and integrity monitoring, fraud risk management, intellectual property and other investigations and regulatory compliance.
- 1.6 “**public practice**” means the practice of a registered auditor who places professional services at the disposal of the public for reward, and “**practice**” has a similar meaning<sup>3</sup>.
- 1.7 “**registered auditor**” means an individual or firm registered as an auditor with the Regulatory Board<sup>4</sup>.
- 1.8 “**registered auditor in public practice**”, in the context of these Rules, means a registered auditor that provides professional services.
- 1.9 “**training contract**” means a written training contract entered into in the prescribed form and registered with the Regulatory Board whereby a prospective registered auditor is duly bound to serve a registered auditor for a specified period and is entitled to receive training in the practice and profession of a registered auditor<sup>5</sup>.
- 1.10 These Rules shall, wherever possible, be construed in conformity with the Act and any footnote in these Rules shall be taken into account in the interpretation of these Rules.

<sup>3</sup> Section 1 v. “public practice”

<sup>4</sup> Section 1 v. “registered auditor”

<sup>5</sup> Section 1 v. “training contract”

**RULES REGARDING IMPROPER CONDUCT****2. IMPROPER CONDUCT**

The Regulatory Board is obliged by section 48 to consider and, where it appears justified, investigate and deal with any complaint, charge or allegation of improper conduct against a registered auditor which may be laid before it, and is empowered to impose any of the prescribed sanctions set out in section 51(3) and Disciplinary Rule 8.1 and 8.2, in respect of any improper conduct. While the acts or omissions specified in the following paragraphs are not intended to be a complete list of acts or omissions which might constitute improper conduct on the part of a registered auditor and which are punishable in accordance with the provisions of the Act and Disciplinary Rules, a registered auditor shall be guilty of improper conduct if such registered auditor without reasonable cause or excuse –

- 2.1 contravenes or fails to comply with any provision of the Act with which it is the registered auditor's duty to comply;
- 2.2 contravenes or fails to comply with any provision of any other Act with which it is the registered auditor's duty to comply in providing professional services;
- 2.3 has been found guilty in some other forum, including a Court, of any offence involving dishonesty, and in particular (but without prejudice to the generality of the foregoing) theft, fraud, forgery or uttering a forged document, perjury, bribery or corruption;
- 2.4 is dishonest in the performance of any work or duties devolving upon the registered auditor in relation to –
  - 2.4.1 any professional services performed by a registered auditor; or
  - 2.4.2 any office of trust which the registered auditor has undertaken or accepted;
- 2.5 contravenes or fails to comply with any requirements in Auditing Pronouncements prescribed by the Regulatory Board;
- 2.6 contravenes or fails to comply with any requirements in the Code;
- 2.7 fails to perform any professional services or duties with such a degree of professional competence, due care and skill as in the opinion of the Regulatory Board may reasonably be expected, or fails to perform the professional services or duties at all;
- 2.8 with intent to evade or to assist any other person to evade any tax, duty, levy or rate whatsoever –
  - 2.8.1 knowingly or recklessly prepares or makes, or assists any other person to prepare or make, any false statement (whether such statement be oral or in writing); or
  - 2.8.2 signs any false statement in relation thereto recklessly or knowing it to be false; or
  - 2.8.3 knowingly or recklessly prepares or maintains any false books of accounts or other records;
- 2.9 permits the registered auditor's name to be used in connection with any estimate of earnings contingent upon future transactions in a manner which may lead to the belief that the registered auditor vouches for the accuracy of the estimate; or in circumstances in which the registered auditor knew, or ought reasonably to have known, that the registered auditor's name was being or would be used in

**RULES REGARDING IMPROPER CONDUCT**

connection with any such estimate of earnings, or failed, within a reasonable time from acquiring such knowledge or from the time when the registered auditor ought reasonably have known of those facts, to take reasonable steps to distance the registered auditor from such estimate and/or to dispel the belief that the registered auditor vouched for the accuracy of the estimate;

- 2.10 seeks, either before or during the period of a training contract of a prospective registered auditor, to impose any restraint whatever on the prospective registered auditor concerned which will apply after the date of termination of the training contract period, or threatens or attempts to enforce any such restraints after such date. The provisions of this rule will not, however, apply so as to prohibit a registered auditor from seeking to restrain a prospective registered auditor, for a period of not longer than one year from the date of the prospective registered auditor's ceasing to be employed by the registered auditor, from soliciting for professional services from an existing client of that registered auditor or from accepting an engagement of any kind from an existing client of that registered auditor;
- 2.11 directly or indirectly stipulates or receives from a prospective registered auditor who is or has been serving under a training contract, or from any other person, any payment, reward, compensation or consideration for agreeing to the cancellation of such training contract - provided that it shall not be deemed a breach of this rule if a registered auditor requires to be or is reimbursed in respect of disbursements actually made by them to the Regulatory Board in connection with a training contract which is subsequently cancelled, and of which disbursements they are able to produce proof to the satisfaction of the Regulatory Board;
- 2.12 fails to answer or to deal with appropriately within a reasonable time any correspondence or other communication from the Regulatory Board or any other person which reasonably requires a reply or other response;
- 2.13 fails to comply within a reasonable time with an order, requirement or request of the Regulatory Board;
- 2.14 fails to resign from a professional appointment when requested by the client to do so and/or fails to transfer all books and papers that are the property of the client and which are or which may come into the registered auditor's possession to the client or to a newly appointed accountant or auditor when requested by the client to do so;
- 2.15 fails after demand to pay any subscription or any fee, levy or other charge payable to the Regulatory Board;
- 2.16 abandons the registered auditor's public practice without previous notice to the registered auditor's clients and without arranging with the clients for the despatch of the clients' business or the care of the clients' property in the registered auditor's possession or under the registered auditor's control; or
- 2.17 behaves in a manner which tends to bring the auditing profession into disrepute.



**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS****CODE OF PROFESSIONAL CONDUCT FOR  
REGISTERED AUDITORS****CONTENTS**

	<b>Page</b>
<b>STATUS OF THE CODE</b>	<b>6</b>
<b>DEFINITIONS</b> .....	<b>6</b>
<b>PART A: GENERAL APPLICATION OF THE CODE</b> .....	<b>16</b>
100 Introduction and Fundamental Principles .....	17
110 Integrity .....	22
120 Objectivity .....	23
130 Professional Competence and Due Care .....	24
140 Confidentiality .....	25
150 Professional Behaviour .....	27
<b>PART B: REGISTERED AUDITORS IN PUBLIC PRACTICE</b> .....	<b>29</b>
200 Introduction .....	30
210 Professional Appointment .....	35
220 Conflicts of Interest .....	38
230 Second Opinions .....	40
240 Fees and Other Types of Remuneration .....	41
250 Marketing Professional Services .....	43
260 Gifts and Hospitality .....	44
270 Custody of Client Assets .....	45
280 Objectivity – All Services .....	47
290 Independence – Audit and Review Engagements .....	48
291 Independence – Other Assurance Engagements .....	97
<b>EFFECTIVE DATE</b> .....	<b>125</b>

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## STATUS OF THE CODE

- 1 In terms of the powers granted to it by sections 4 and 21 of the Act, the Regulatory Board has published this Code of Professional Conduct for Registered Auditors ("this Code") to establish the fundamental principles of ethical conduct and provide a conceptual framework that assists registered auditors in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It replaces the existing IRBA Code of Professional Conduct which is repealed and replaced with effect from 1 January 2011. Transitional provisions at the end of this Code provide for later effective dates for specific sections. This Code does not restrict the scope of the Act or the Rules Regarding Improper Conduct.
- 2 The Code is applicable to all registered auditors. A contravention of, or failure to comply with any requirements in the Code, may be regarded as improper conduct within the ambit of section 21 of the Act or of the *Rules Regarding Improper Conduct* and as such may be investigated and if appropriate the registered auditor might be charged in terms of section 48 of the Act.
- 3 This Code is based on Parts A and B of the *Code of Ethics for Professional Accountants* of the International Ethics Standards Board of Accountants (the "IESBA Code") published by the International Federation of Accountants (IFAC) in April 2010 and is used with permission of IFAC. Adaptations to Parts A and B are underlined and in italics in this Code.

## DEFINITIONS

For the purpose of this Code the terms below have the meanings assigned to them and any reference to any section in this Code is a reference to the corresponding section in the Act.

In this Code, the following expressions or terms have the meanings assigned to them.

**Acceptable level** A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the registered auditor at that time, that compliance with the fundamental principles is not compromised.

**Act** *The Auditing Profession Act, 2005 (Act No. 26 of 2005).*

**Advertising** The communication to the public of information as to the services or skills provided by registered auditors 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.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Assurance engagement	<p>An engagement in which a <u>registered auditor</u> 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.</p> <p>(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.)</p>
Assurance team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</li> <li>(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</li> </ul>
Audit client	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.</p>
Audit engagement	<p>A reasonable assurance engagement in which a <u>registered auditor</u> in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects,) in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.</p>

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Audit team	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <p>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p>
<u>Regulatory Board</u>	<u>The Independent Regulatory Board for Auditors established by section 3<sup>6</sup></u>
<u>Client account</u>	<u>A bank account which is used solely for the banking of clients' monies.</u>
<u>Client monies</u>	<u>Any monies, including documents of title to money such as bills of exchange and promissory notes, as well as documents of title which can be converted into money such as bearer bonds, received by a registered auditor to be held or paid out on the instruction of the person from whom or on whose behalf they are received.</u>
Close family	A parent, child or sibling who is not an immediate family member.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

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<sup>6</sup> Section 1 v. "Regulatory Board"

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Direct financial interest	<p>A financial interest:</p> <p>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</p> <p>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.</p>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which may vary from jurisdiction to jurisdiction.
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, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
Existing auditor	A <u>registered auditor</u> in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the <u>registered auditor</u> in obtaining sufficient appropriate evidence.
Financial interest	An interest in 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.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
Financial statements on which the <i>registered auditor</i> will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	<p>(d) <i>A partnership, company or sole proprietor referred to in section 38<sup>7</sup>:</i></p> <p>(e) An entity that controls <i>the</i> parties <i>in (a)</i>, through ownership, management or other means; and</p> <p>(c) An entity controlled by <i>the</i> parties <i>in (a)</i>, through ownership, management or other means.</p>
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.

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<sup>7</sup> Section 1 v. "firm"

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Independence	<p>Independence is:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism;</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.</p>
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 or ability to influence investment decisions.
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.
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> <p>(a) That is aimed at co-operation; and</p> <p>(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.</p>
Network firm	A firm or entity that belongs to a network.
Office	A distinct sub-group, whether organized on geographical or practice lines.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## Professional services

*Services requiring accountancy or related skills performed by a registered auditor including accounting, auditing, review, other assurance and related services, taxation, management consulting and financial management services. These include but are not limited to:*

- (d) *Audit, review, other assurance and related services:*
  - (i) *Financial statement audits and reviews, other assurance and related services such as regulatory reporting, sustainability, compliance and performance reporting;*
  - (ii) *Company accounting advisory services such as preparation of accounting records and financial statements in accordance with recognised financial reporting standards and applicable statutes; and*
  - (iii) *Company statutory services;*
- (e) *Taxation services:*
  - (i) *Tax return preparation and submission,*
  - (ii) *Tax calculations for the purpose of preparing accounting entries,*
  - (iii) *Tax planning and other tax advisory services, and*
  - (iv) *Assistance in the resolution of tax disputes;*
- (f) *Advisory services:*
  - (i) *Accounting advisory and financial management advisory services: accounting support, conversion services for new and revised accounting standards, financial modeling and project management;*
  - (ii) *Business performance services: business effectiveness, people and change management, operational and business finance;*
  - (iii) *Internal audit: risk and compliance services, review and monitoring of internal controls, risk management, compliance services, corporate governance and audit committee advisory services;*
  - (iv) *Corporate finance services: mergers and acquisitions, valuations, infrastructure financing, debt and capital markets, due diligence reviews, transaction services and designated advisor services to listed companies;*



## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- (v) Corporate recovery services: liquidation and insolvency administration, curator bonis, administration of deceased estates, judicial management and trusteeships;
- (vi) Financial risk management services: actuarial services, banking and risk advisory, regulatory and compliance services, technical accounting;
- (vii) Information technology (IT) Advisory: security, privacy and continuity, enterprise resource planning; information system audit services, IT project advisory, governance and performance;
- (viii) Forensic services: dispute advisory and resolution, ethics and integrity monitoring, fraud risk management, intellectual property and other investigations and regulatory compliance.

Public practice The practice of a registered auditor who places professional services at the disposal of the public for reward, and "practice" has a similar meaning<sup>8</sup>.

- Public interest entity
- (a) A listed entity; and
  - (b) An entity
    - (i) defined by regulation or legislation as a public interest entity; or
    - (ii) 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.

Registered auditor An individual or firm registered as an auditor with the Regulatory Board.

Registered auditor in public practice A registered auditor that provides professional services.

<sup>8</sup> Section 1 v. "public practice"

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"><li>(a) An entity that has direct or indirect control over the client if the client is material to such entity;</li><li>(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;</li><li>(c) An entity over which the client has direct or indirect control;</li><li>(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</li><li>(e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.</li></ul>
Review client	<p>An entity in respect of which a firm conducts a review engagement.</p>
Review engagement	<p>An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a <u>registered auditor</u> in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the <u>registered auditor's</u> attention that causes the <u>registered auditor</u> to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.</p>

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

Review team	<ul style="list-style-type: none"> <li>(a) All members of the engagement team for the review engagement; and</li> <li>(b) All others within a firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</li> <li>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</li> <li>(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</li> </ul> </li> <li>(c) All those within a network firm who can directly influence the outcome of the review engagement.</li> </ul>
Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Those charged with governance	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS****PART A—GENERAL APPLICATION OF THE CODE**

	Page
Section 100 Introduction and Fundamental Principles .....	17
Section 110 Integrity .....	22
Section 120 Objectivity .....	23
Section 130 Professional Competence and Due Care .....	24
Section 140 Confidentiality .....	25
Section 150 Professional Behaviour .....	27

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## SECTION 100

## Introduction and Fundamental Principles

100.1 A distinguishing mark of the auditing profession is its acceptance of the responsibility to act in the public interest. Therefore, a registered auditor's responsibility is not exclusively to satisfy the needs of an individual client. In acting in the public interest, a registered auditor shall observe and comply with this Code. If a registered auditor is prohibited from complying with certain parts of this Code by law or regulation, the registered auditor shall comply with all other parts of this Code.

100.2 This Code contains two parts. Part A establishes the fundamental principles of professional ethics for registered auditors and provides a conceptual framework that registered auditors shall apply to:

- (a) Identify threats to compliance with the fundamental principles;
- (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. Safeguards are necessary when the registered auditor determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the registered auditor at that time, that compliance with the fundamental principles is not compromised.

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

100.3 Part B describes how the conceptual framework applies in certain situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. It also describes situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to registered auditors in public practice.

100.4 The use of the word "shall" in this Code imposes a requirement on the registered auditor to comply with the specific provision in which "shall" has been used. Compliance is required unless an exception is permitted by this Code.

*Fundamental Principles*

100.5 A registered auditor shall comply with the following fundamental principles:

- (a) *Integrity* – to be straightforward and honest in all professional and business relationships.
- (b) *Objectivity* – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- (c) *Professional Competence and Due Care* – to maintain professional knowledge and skill at the level required to ensure that a client receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- (d) *Confidentiality* – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, 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, nor use the information for the personal advantage of the registered auditor or third parties.
- (e) *Professional Behaviour* – to comply with relevant laws and regulations and avoid any action that discredits the auditing profession.

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

*Conceptual Framework Approach*

- 100.6 The circumstances in which registered auditors operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a registered auditor to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists registered auditors in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a registered auditor from concluding that a situation is permitted if it is not specifically prohibited.
- 100.7 When a registered auditor identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the registered auditor shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. In making that determination, the registered auditor shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the registered auditor at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.
- 100.8 A registered auditor shall evaluate any threats to compliance with the fundamental principles when the registered auditor knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.9 A registered auditor shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a registered auditor may encounter situations in which threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the registered auditor shall decline or discontinue the specific professional service involved or, when necessary, resign from the engagement.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- 100.10 A registered auditor may inadvertently violate a provision of this Code. Depending on the nature and significance of the matter, such an inadvertent violation may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 100.11 When a registered auditor encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the registered auditor consult with the Regulatory Board or the individual registered auditor's professional institute.

*Threats and Safeguards*

- 100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a registered auditor's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:
- (a) Self-interest threat - the threat that a financial or other interest will inappropriately influence the registered auditor's judgment or behaviour;
  - (b) Self-review threat - the threat that a registered auditor will not appropriately evaluate the results of a previous judgment made or service performed by the registered auditor, or by another individual within the registered auditor's firm, on which the registered auditor will rely when forming a judgment as part of providing a current service;
  - (c) Advocacy threat - the threat that a registered auditor will promote a client's position to the point that the registered auditor's objectivity is compromised;
  - (d) Familiarity threat - the threat that due to a long or close relationship with a client, a registered auditor will be too sympathetic to their interests or too accepting of their work; and
  - (e) Intimidation threat - the threat that a registered auditor will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the registered auditor.

Part B of this Code explains how these categories of threats may be created for registered auditors.

- 100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
  - (b) Safeguards in the work environment.
- 100.14 Safeguards created by the profession, legislation or regulation include:
- Educational, training and experience requirements for entry into the profession.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

- Continuing professional development requirements.
  - Corporate governance legislation or 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 *registered auditor*.
- 100.15 Part B of this Code discusses safeguards in the work environment for *registered auditors*.
- 100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the auditing profession, legislation or regulation include:
- Effective, well-publicised complaint systems operated by the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behaviour.
  - An explicitly stated duty to report breaches of ethical requirements.

*Ethical Conflict Resolution*

- 100.17 A *registered auditor* may be required to resolve a conflict in complying with the fundamental principles.
- 100.18 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to 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 the relevant factors, a *registered auditor* shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the *registered auditor* may wish to consult with other appropriate persons within the firm for help in obtaining resolution.

- 100.19 Where a matter involves a conflict with, or within, an organisation, a *registered auditor* shall determine whether to consult with those charged with governance of the organisation, such as the board of directors or the audit committee.
- 100.20 It may be in the best interests of the *registered auditor* to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.
- 100.21 If a significant conflict cannot be resolved, a *registered auditor* may consider obtaining professional advice from the *Regulatory Board*, from a relevant professional body or from legal advisors. The *registered auditor* generally can



**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the registered auditor may consider obtaining legal advice vary. For example, a registered auditor may have encountered a fraud, the reporting of which could breach the registered auditor's responsibility to respect confidentiality. The registered auditor may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

- 100.22 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a registered auditor shall, where possible, refuse to remain associated with the matter creating the conflict. The registered auditor shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement or the firm.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## SECTION 110

**Integrity**

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

110.2 A registered auditor shall not knowingly be associated with reports, returns, communications or other information where the registered auditor believes 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.

When a registered auditor becomes aware that the registered auditor has been associated with such information, the registered auditor shall take steps to be disassociated from that information.

110.3 A registered auditor will be deemed not to be in breach of paragraph 110.2 if the registered auditor provides a modified report in respect of a matter contained in paragraph 110.2.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## SECTION 120

## Objectivity

- 120.1 The principle of objectivity imposes an obligation on all registered auditors not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.
- 120.2 A registered auditor may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A registered auditor shall not perform a professional service if a circumstance or relationship biases or unduly influences the registered auditor's professional judgment with respect to that service.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## SECTION 130

## Professional Competence and Due Care

- 130.1 The principle of professional competence and due care imposes the following obligations on all registered auditors:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients 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 enables a registered auditor to develop and maintain the capabilities to perform competently within the professional environment.
- 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 registered auditor shall take reasonable steps to ensure that those working under the registered auditor's authority in a professional capacity have appropriate training and supervision.
- 130.6 Where appropriate, a registered auditor shall make clients, employers or other users of the registered auditor's professional services aware of the limitations inherent in the services.
- 130.7 A registered auditor shall not undertake or continue with any engagement which the registered auditor is not competent to perform, unless the registered auditor obtains advice and assistance which enables the registered auditor to carry out the engagement satisfactorily.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## SECTION 140

## Confidentiality

- 140.1 The principle of confidentiality imposes an obligation on all registered auditors to refrain from:
- (a) Disclosing outside the firm 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 registered auditor shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member.
- 140.3 A registered auditor shall maintain confidentiality of information disclosed by a prospective client.
- 140.4 A registered auditor shall maintain confidentiality of information within the firm.
- 140.5 A registered auditor shall take reasonable steps to ensure that staff under the registered auditor's control and persons from whom advice and assistance is obtained respect the registered auditor's duty of confidentiality.
- 140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a registered auditor and a client. When a registered auditor acquires a new client, the registered auditor is entitled to use prior experience. The registered auditor shall 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 registered auditors are or may be required to disclose confidential information or when such disclosure may be appropriate:
- (a) Disclosure is permitted by law and is authorised by the client;
  - (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, including disclosures of reportable irregularities reported to the Regulatory Board as required by section 45 of the Act; and
  - (c) There is a professional duty or right to disclose, when not prohibited by law:
    - (i) To comply with the quality review of the Regulatory Board or a professional body;
    - (ii) To respond to an inquiry or investigation by the Regulatory Board or other regulatory body;

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

- (iii) To protect the professional interests of a registered auditor in legal proceedings;
  - (iv) To comply with technical standards and the requirements of this Code.
- 140.8 In deciding whether to disclose confidential information, relevant factors to consider include:
- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client consents to the disclosure of information by the registered auditor;
  - (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 shall be used in determining the type of disclosure to be made, if any;
  - (c) The type of communication that is expected and to whom it is addressed; and
  - (d) Whether the parties to whom the communication is addressed are appropriate recipients.

## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

## SECTION 150

## Professional Behaviour

- 150.1 The principle of professional behaviour imposes an obligation on all registered auditors to comply with relevant laws and regulations and avoid any action that the registered auditor knows or should know may discredit the profession. This includes actions that 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 adversely affects the good reputation of the profession.
- 150.2 In marketing and promoting themselves and their work, registered auditors shall not bring the profession into disrepute. Registered auditors shall be honest and truthful and 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.

Multiple firms

- 150.3 An individual registered auditor is permitted to be a member of more than one registered audit firm and some other type of professional firm providing professional services. It is also permissible to practice under different firm names for different offices, provided this does not mislead.
- 150.4 Individual registered auditors who are members of registered audit firms as well as being members of other accounting or consulting firms that provide professional services and have individual members who are not registered auditors, must ensure there is a clear distinction between the different firms and the members thereof, and that they do not unwittingly contravene section 41(2) of the Act, or cause it to be contravened by the members of those other accounting or consulting firms who are not individual registered auditors.

Signing convention for Reports or Certificates

- 150.5 A registered auditor shall not delegate to any person who is not a partner, or fellow director, the power to sign audit, review or other assurance reports or certificates that are required, in terms of any law or regulation, to be signed by the, registered auditor responsible for the engagement. In specific cases where emergencies of sufficient gravity arise, however, this prohibition may be relaxed, provided the full circumstances giving rise to the need for delegation are reported both to the client of the registered auditor concerned and to the Regulatory Board.
- 150.6 The individual registered auditor responsible for the audit, review or other assurance engagement<sup>9</sup> shall, when signing any audit, review or other assurance report or certificate, reflect the following:
- (a) the individual registered auditor's full name;

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<sup>9</sup> Section 44(1)(a)

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

- (b) if not a sole proprietor, the capacity in which they are signing, namely as the 'partner' or 'director';
- (c) the designation 'Registered Auditor' underneath their name; and
- (d) if not set out on the firm's letterhead, the name of the registered auditor's firm.



## CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

**PART B—REGISTERED AUDITORS IN PUBLIC PRACTICE**

	Page
Section 200 Introduction .....	30
Section 210 Professional Appointment .....	35
Section 220 Conflicts of Interest .....	38
Section 230 Second Opinions .....	40
Section 240 Fees and Other Types of Remuneration .....	41
Section 250 Marketing Professional Services .....	43
Section 260 Gifts and Hospitality .....	44
Section 270 Custody of Client Assets .....	45
Section 280 Objectivity—All Services .....	47
Section 290 Independence – Audit and Review Engagements .....	48
Section 291 Independence – Other Assurance Engagements .....	97

## 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 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 auditor to communicate with the existing auditor, or fails to do so, the proposed auditor shall decline the appointment, unless there are exceptional circumstances of which the proposed auditor has full knowledge, and the proposed auditor is satisfied regarding all relevant facts, by some other means.*

## 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.
- 240.3 Contingent fees are widely used for certain types of non-assurance engagements<sup>10</sup>. 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.
  - Review by an independent third party of the work performed by the registered auditor.

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<sup>10</sup> 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

240.4A Notwithstanding paragraphs 240.3 and 240.4, a registered auditor shall not charge contingent fees for assurance services provided to clients, or 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 provision of 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:

- Disclose to the client in advance, in writing, any arrangements to pay a referral fee to another registered auditor for the work referred.
- Disclose to the client in advance, in writing, any arrangements to receive a referral fee for referring the client to another registered auditor.
- Obtain agreement in advance, in writing, 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:

- (a) Make exaggerated claims for services offered, qualifications possessed, or experience gained; or
- (b) 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 Regulatory 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 .....	290.162
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

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**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:
  - i. defined by regulation or legislation as a public interest entity; or
  - ii. 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.

290.26 Firms 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.

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

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

- (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,

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.

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

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

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 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 (a) and (b); 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.

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

- 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 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, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the audit team; a member of that individual's immediate family; or the firm.

**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;

**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

- Having a registered auditor review the work of the member of the audit team; or
- Removing the individual from the audit team.

**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

### CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

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 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,



**CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS**

- (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;
- (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.

*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