



# CIMA Code of Ethics

For Professional Accountants.

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# CIMA Preface

As chartered management accountants CIMA members (and registered students) throughout the world have a duty to observe the highest standards of conduct and integrity, and to uphold the good standing and reputation of the profession. They must also refrain from any conduct which might discredit the profession. Members and registered students must have regard to these guidelines irrespective of their field of activity, of their contract of employment or of any other professional memberships they may hold.

CIMA upholds the aims and principles of equal opportunities and fundamental human rights worldwide, including the handling of personal information. The Institute promotes the highest ethical and business standards, and encourages its members to be good and responsible professionals. Good ethical behaviour may be above that required by the law. In a highly competitive, complex business world, it is essential that CIMA members sustain their integrity and remember the trust and confidence which is placed on them by whoever relies on their objectivity and professionalism. Members must avoid actions or situations which are inconsistent with their professional obligations. They should also be guided not merely by the terms but by the spirit of this Code.

CIMA members should conduct themselves with courtesy and consideration towards all with whom they have professional dealings and should not behave in a manner which could be considered offensive or discriminatory.

To ensure that CIMA members protect the good standing and reputation of the profession, members must report the fact to the Institute if they are convicted or disqualified from acting as an officer of a company or if they are subject to any sanction resulting from disciplinary action taken by any other body or authority.

CIMA has adopted the following code of ethics. Parts A and B of this code are based on the IFAC\* Code of Ethics, that was developed with the help of input from CIMA and the global accountancy profession. Part C of the Code was developed in cooperation with the American Institute of Certified Public Accountants (AICPA). The AICPA and CIMA joined together to create a designation for management accountants, the Chartered Global Management Accountant (CGMA). The CGMA designation is designed to elevate management accounting and further emphasize its importance for businesses worldwide. Part C of the Code is designed to provide guidance to all CIMA members around the world

who are members in business and professional accountants in business and, those who hold the CGMA credential. When a CGMA is also a member in public practice the CGMA should also comply with the applicable guidance of the CIMA Code of Ethics and apply the most restrictive provisions.

If a member cannot resolve an ethical issue by following this Code by consulting the ethics information on CIMA's website or by seeking guidance from CIMA's ethics helpline, he or she should seek legal advice as to both his or her legal rights and any obligations he or she may have. The CIMA Charter, Byelaws and Regulations give definitive rules on many matters.

For further information see:  
[www.cimaglobal.com/ethics](http://www.cimaglobal.com/ethics)

Note: The CIMA Code of Ethics is a Law of the Institute (to which all members and registered students are required to comply) for the purpose of the definition of "misconduct" in Byelaw 1.

\*International Federation of Accountants.

Parts A and B of the CIMA Code of Ethics are based on the IFAC Handbook of the Code of Ethics for Professional Accountants, of the International Ethics Standards Board of Accountants (IESBA), published by IFAC in July 2014 and is used with permission by IFAC.

# CIMA Code at a glance

## Part A: General application of the Code

Part A establishes the fundamental principles of professional ethics for professional accountants. It also provides a conceptual framework that they shall use to identify, evaluate and apply safeguards to eliminate threats to compliance with the fundamental principles.

Part A addresses conflicts of interest (100.17), ethical conflict resolution (100.19-100.24), and communicating with those charged with governance (100.25). The five fundamental principles listed in Part A are Integrity (110), Objectivity (120), Professional Competence and Due Care (130), Confidentiality (140), and Professional Behaviour (150).

## Part B: Professional Accountants in Public Practice

Part B applies to professional accountants in public practice, and 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. Professional accountants in public practice may also find Part C relevant to their particular circumstances.

Part B addresses professional appointments (210), including client and engagement acceptance, and changes in a professional appointment. This is followed by section 220 on conflicts of interest, second opinions (230), fees and other types of remuneration (240), marketing and professional services (250), gifts and hospitality (260), custody of client assets (270), and objectivity – all services (280).

Sections 290 and 291 (in Annex 1 – separate document) address the independence requirements for audit, review and other assurance engagements and apply a conceptual framework approach.

## Part C: Professional Accountants in Business including CGMA designation holders

Part C applies to professional accountants in business, and describes how the conceptual framework applies in

certain situations. Part C of the Code was developed in cooperation with the American Institute of Certified Public Accountants (AICPA); and, like Parts A and B, the elements of the updated Part C which apply to CIMA members and students continue to reflect IFAC's fundamental principles and conceptual framework approach.

Part C section 310 addresses ethical conflicts, and includes an interpretation under CIMA's Integrity and Objectivity Principles, and AICPA's Integrity and Objectivity Rule. Section 320 addresses conflicts of interest, including how they are identified, evaluated and disclosed of. Offering or accepting gifts, entertainment and other forms of inducements are found in section 330. Preparing and reporting information (340) is addressed with subheadings including "knowing misrepresentations in the preparation of financial statements or records", "subordination of judgment", and "obligation of a member to his or her employer's external accountant".

Information related to educational services can be found in section 350. Section 360 highlights the principle of Professional Competence and Due Care and AICPA's General Standards Rule, and includes information around submission of financial statements, accounting principles, and responsibility for affirming that financial statements are in conformity with the applicable financial reporting framework.

CIMA's Professional Behaviour and Confidentiality Principles, and AICPA's Acts Discreditable Rule are addressed in section 370, with subheadings including "discrimination and harassment in employment practices", "solicitation or disclosure of CPA/CIMA examination questions and answers", "failure to file a tax return or pay a tax liability", "negligence in the preparation of financial statements or records", "governmental bodies, commissions, or other regulatory agencies", "indemnification and limitation of liability provisions", "confidential information obtained from employment or volunteer activities", and "false, misleading or deceptive acts in promoting or marketing professional services".

# Conceptual framework approach

The Code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest.

## Fundamental principles

CIMA's Code of Ethics is made up of five fundamental principles:

- **Integrity:** being straightforward, honest and truthful in all professional and business relationships. You should not be associated with any information that you believe contains a materially false or misleading statement, or which is misleading by omission.
- **Objectivity:** not allowing bias, conflict of interest or the influence of other people to override your professional judgment.
- **Professional competence and due care:** an ongoing commitment to your level of professional knowledge and skill. Base this on current developments in practice, legislation and techniques. Those working under your authority must also have the appropriate training and supervision.
- **Confidentiality:** you should not disclose professional information unless you have specific permission or a legal or professional duty to do so.
- **Professional behaviour:** comply with relevant laws and regulations. You must also avoid any action that could negatively affect the reputation of the profession.

The code explains these principles, and gives examples of their use for professional accountants in practice (Part B) and professional accountants in business (Part C).

## Threats

The code identifies five categories of common threats to the five principles:

- **Self-interest threat:** commonly called a "conflict of interest" which may inappropriately influence judgment or behaviour.
- **Self-review threat:** when you are required to evaluate the results of a previous judgment or service.
- **Advocacy threat:** arising if promoting a position or opinion to the point that your subsequent objectivity is compromised.
- **Familiarity threat:** when you become so sympathetic to the interests of others as a result of a close relationship that your professional judgment becomes compromised.
- **Intimidation threat:** when you are deterred from acting

## Safeguards

Our code has a "threats and safeguards" approach to resolving ethical issues. This means that if you think there is a threat, you should assess whether the threat is significant. Then, take action to remove or mitigate it.

Employing institutions often have safeguards: whistleblowing or grievance procedures. Safeguards are also created by the profession, legislation or regulation.

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# Part A

## General application of the code

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## Section 100

### Introduction and Fundamental Principles

- 100.1** A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant shall comply with all other parts of this Code.
- 100.2** This Code contains three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants 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 professional accountant 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 professional accountant at that time, that compliance with the fundamental principles is not compromised.
- A professional accountant shall use professional judgment in applying this conceptual framework.
- 100.3** Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe 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 professional accountants in public practice. Part C applies to professional accountants in business. Professional accountants in public practice may also find Part C relevant to their particular circumstances.

- 100.4** The use of the word "shall" in this Code imposes a requirement on the professional accountant or firm 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 professional accountant 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 or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
  - (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 professional accountant or third parties.
  - (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.

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

## Conceptual Framework Approach

- 100.6 The circumstances in which professional accountants 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 professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists professional accountants 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 professional accountant from concluding that a situation is permitted if it is not specifically prohibited.
- 100.7 When a professional accountant 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 professional accountant 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 professional accountant 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 professional accountant 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 professional accountant shall evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.9 A professional accountant shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a professional accountant 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 professional accountant shall decline or discontinue the specific professional activity or service involved or, when necessary, resign from the engagement (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).
- 100.10 Sections 290 and 291 contain provisions with which a professional accountant shall comply if the professional accountant identifies a breach of an independence provision of the Code. If a professional accountant identifies a breach of any other provision of the Code, the professional accountant shall evaluate the significance of the breach and the impact of the accountant's ability to comply with the fundamental principles. The accountant shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The accountant shall determine whether to report the breach, for example, to those who may have been affected by the breach, a member body, relevant regulator or oversight authority.
- 100.11 When a professional accountant 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 professional accountant consult with a member body or the relevant regulator.

## 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 professional accountant'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 professional accountant's judgment or behavior;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or activity or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity or providing a current service;
- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances fundamental principles.

**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.
- Continuing professional development requirements.
- Corporate governance regulations.
- Professional standards.
- Professional or regulatory monitoring and disciplinary procedures.
- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

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

**100.16** Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organization, include:

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

## Conflicts of interest

- 100.17 A professional accountant may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:
- The professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interest with respect to that matter are in conflict; or
  - The interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant provides a professional activity related to that matter are in conflict.
- 100.18 Parts B and C of this Code discuss conflicts of interest for professional accountants in public practice and professional accountants in business, respectively.

## Ethical Conflict Resolution

- 100.19 A professional accountant may be required to resolve a conflict in complying with the fundamental principles.
- 100.20 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 professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the professional accountant may wish to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.

- 100.21 Where a matter involves a conflict with, or within, an organization, a professional accountant shall determine whether to consult with those charged with governance of the organization, such as the board of directors or the audit committee.
- 100.22 It may be in the best interests of the professional accountant to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.
- 100.23 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can 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 professional accountant may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report.
- 100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant 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, the firm or the employing organization.

## Communicating with Those Charged with Governance

100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the professional accountant or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the professional accountant or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the professional accountant or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

## Section 110

### Integrity

- 110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.
- 110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant 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 professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.
- 110.3 A professional accountant will be deemed not to be in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.

## Section 120

### Objectivity

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

## Section 130

### Professional Competence and Due Care

- 130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
  - (b) To act diligently in accordance with applicable technical and professional standards when performing professional activities or 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 professional accountant 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 professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a professional accountant shall make clients, employers or other users of the accountant's professional services or activities aware of the limitations inherent in the services or activities.

## Section 140

### Confidentiality

140.1 The principle of confidentiality imposes an obligation on all professional accountants to refrain from:

- (a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

140.2 A professional accountant 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 professional accountant shall maintain confidentiality of information disclosed by a prospective client or employer.

140.4 A professional accountant shall maintain confidentiality of information within the firm or employing organization.

140.5 A professional accountant shall take reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.

140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer. When a professional accountant changes employment or acquires a new client, the professional accountant is entitled to use prior experience. The professional accountant 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 professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

- (a) Disclosure is permitted by law and is authorized by the client or the employer;
- (b) Disclosure is required by law, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
  - (i) To comply with the quality review of a member body or professional body;
  - (ii) To respond to an inquiry or investigation by a member body or regulatory body;
  - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
  - (iv) To comply with technical standards and ethics requirements.

140.8 In deciding whether to disclose confidential information, 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 or employer consents to the disclosure of information by the professional accountant;
- (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.

## Section 150

### Professional Behavior

150.1 The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any action that the professional accountant 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 professional accountant 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, professional accountants shall not bring the profession into disrepute. Professional accountants 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.

# Part B

## Professional accountants in public practice

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## Section 200

### Introduction

**200.1** This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in public practice. This Part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in public practice that create or may create threats to compliance with the fundamental principles. Therefore, the professional accountant in public practice is encouraged to be alert for such circumstances and relationships.

**200.2** A professional accountant in public practice 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 professional accountant in public practice 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.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm.

**200.5** Examples of circumstances that create self-review threats for a professional accountant in public practice 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 professional accountant in public practice include:

- The firm promoting shares in an audit client.
- A professional accountant 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 professional accountant in public practice 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 professional accountant 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 professional accountant in public practice 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.
- 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 professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant 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 In exercising this judgment, a professional accountant in public practice shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant 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.
- 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 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 professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having a professional accountant 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 professional accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Involving another firm to perform or re-perform part of the engagement.
- Rotating senior assurance team personnel.

200.14 Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.

200.15 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.

## Section 210

### Professional Appointment

#### Client Acceptance

- 210.1** Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management or activities).
- 210.2** A 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 professional accountant in public practice 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 professional accountant in public practice shall decline to enter into the client relationship.
- 210.5** It is recommended that a professional accountant in public practice 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 professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice 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 professional accountant in public practice 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.
  - 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 professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice 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 professional accountant in public practice who is asked to replace another professional accountant in public practice, or who is considering tendering for an engagement currently held by another professional accountant in public practice, 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 professional accountant in public practice accepts the engagement before knowing all the pertinent facts.

210.10 A professional accountant in public practice shall evaluate the significance of any threats. Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances regarding the proposed change so that the professional accountant in public practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision 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 accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- Asking the existing accountant to provide known information on any facts or circumstances that, in the existing accountant's opinion, the proposed accountant 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 professional accountant in public practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

210.12 A professional accountant in public practice may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may create threats 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 accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

210.13 An existing accountant is bound by confidentiality. Whether that professional accountant is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:

- (a) Whether the client's permission to do so has been obtained; or
- (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

Circumstances where the professional accountant 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 this Code.

**210.14** A professional accountant in public practice will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an existing accountant. Once that permission is obtained, the existing accountant shall comply with relevant legal and other regulations governing such requests. Where the existing accountant provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing accountant, the proposed accountant 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.

## Section 220

### Conflicts of Interest

**220.1** A professional accountant in public practice may be faced with a conflict of interest when performing a professional service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
- The interests of the professional accountant with respect to a particular matter and the interests of the client for whom the professional accountant provides a professional service related to that matter are in conflict.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

When the professional service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Sections 290 or 291 as appropriate.

**220.2** Examples of situations in which conflicts of interest may arise include:

- Providing a transaction advisory service to a client seeking to acquire an audit client of the firm, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction.
- Advising two clients at the same time who are competing to acquire the same company where the advice might be relevant to the parties' competitive positions.
- Providing services to both a vendor and a purchaser in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership.
- Providing an assurance report for a licensor on royalties due under a license agreement when at the same time advising the licensee of the correctness of the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant in public practice has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on the acquisition of a business which the firm is also interested in acquiring.
- Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service.

220.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in public practice 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 professional accountant at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.

220.4 When addressing conflicts of interest, including making disclosures or sharing information within the firm or network and seeking guidance of third parties, the professional accountant in public practice shall remain alert to the fundamental principle of confidentiality.

220.5 If the threat created by a conflict of interest is not at an acceptable level, the professional accountant in public practice shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the professional accountant shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

220.6 Before accepting a new client relationship, engagement, or business relationship, a professional accountant in public practice shall take reasonable steps to identify circumstances that might create a conflict of interest, including identification of:

- The nature of the relevant interests and relationships between the parties involved; and
- The nature of the service and its implication for relevant parties.

The nature of the services and the relevant interests and relationships may change during the course of the engagement. This is particularly true when a professional accountant is asked to conduct an engagement in a situation that may become adversarial, even though the parties who engage the professional accountant may not initially be involved in a dispute. The professional accountant shall remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

220.7 For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a professional accountant in public practice to identify actual or potential conflicts of interest prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the professional accountant being able to apply safeguards, when necessary, to eliminate the threat to objectivity and any threat to compliance with other fundamental principles or reduce it to an acceptable level. The process to identify actual or potential conflicts of interest will depend on such factors as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

220.8 If the firm is a member of a network, conflict identification shall include any conflicts of interest that the professional accountant in public practice has reason to believe may exist or might arise due to interests and relationships of a network firm. Reasonable steps to identify such interests and relationships involving a network firm will depend on factors such as the nature of the professional services provided, the clients served by the network and the geographic locations of all relevant parties.

220.9 If a conflict of interest is identified, the professional accountant in public practice shall evaluate:

- The significance of relevant interests or relationships; and
- The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.

220.10 The professional accountant in public practice shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Examples of safeguards include:

- Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include:
  - Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
  - Creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm.
  - Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information.
- Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements.
- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
- Consulting with third parties, such as a professional body, legal counsel or another professional accountant.

220.11 In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in public practice performing the professional services. Disclosure and consent may take different forms, for example:

- General disclosure to clients of circumstances where the professional accountant, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the professional accountant's standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict, including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly.
- In certain circumstances, consent may be implied by the client's conduct where the professional accountant has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

The professional accountant shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the professional accountant shall exercise professional judgment in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

220.12 Where a professional accountant in public practice has requested explicit consent from a client and that consent has been refused by the client, the professional accountant shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards if necessary.

220.13 When disclosure is verbal, or consent is verbal or implied, the professional accountant in public practice is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.

220.14 In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:

- Performing a transaction-related service for a client in connection with a hostile takeover of another client of the firm.
- Performing a forensic investigation for a client in connection with a suspected fraudulent act where the firm has confidential information obtained through having performed a professional service for another client who might be involved in the fraud.

The firm shall not accept or continue an engagement under such circumstances unless the following conditions are met:

- The firm does not act in an advocacy role for one client where this requires the firm to assume an adversarial position against the other client with respect to the same matter;
- Specific mechanisms are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- The firm is satisfied that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant in public practice at the time, would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

The professional accountant shall document the nature of the circumstances, including the role that the professional accountant is to undertake, the specific mechanisms in place to prevent disclosure of information between the engagement teams serving the two clients and the rationale for the conclusion that it is appropriate to accept the engagement.

## Section 230

### Second Opinions

230.1 Situations where a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may create threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant or is based on inadequate evidence. The 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 professional accountant in public practice 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 accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.

230.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, a professional accountant in public practice shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

## Section 240

### Fees and Other Types of Remuneration

- 240.1** When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.
- 240.2** The 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>1</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 professional accountant in public practice and the basis of remuneration.
  - Quality control policies and procedures.
  - Review by an independent third party of the work performed by the professional accountant in public practice.
- 240.5** In certain circumstances, a professional accountant in public practice may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice or other expert. A professional accountant in public practice may receive a commission from a third party (for example, a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission creates a self-interest threat to objectivity and professional competence and due care.
- 240.6** A professional accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee also creates a self-interest threat to objectivity and professional competence and due care.

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

**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:

- Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred.
- Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice.
- Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.

**240.8** A professional accountant in public practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

## Section 250

### Marketing Professional Services

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

**250.2** A professional accountant in public practice shall not bring the profession into disrepute when marketing professional services. The professional accountant in public practice shall be honest and truthful, and 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 professional accountant in public practice is in doubt about whether a proposed form of advertising or marketing is appropriate, the professional accountant in public practice shall consider consulting with the relevant professional body.

## Section 260

### Gifts and Hospitality

**260.1** A professional accountant in public practice, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer 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 professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.

**260.3** A professional accountant in public practice 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 professional accountant in public practice shall not accept such an offer.

## Section 270

### Custody of Client Assets

- 270.1 A professional accountant in public practice 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 professional accountant in public practice holding such assets.
- 270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behavior and may be a self-interest threat to objectivity arising from holding client assets. A professional accountant in public practice 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 professional accountant in public practice shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if 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 professional accountant may consider seeking legal advice.

## Section 280

### Objectivity – All Services

- 280.1 A professional accountant in public practice 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 professional accountant in public practice who provides an assurance service shall be independent= of the assurance client. Independence of mind and in appearance is necessary to enable the professional accountant in public practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Sections 290 and 291 provide specific guidance on independence requirements for professional accountants in public practice 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 professional accountant in public practice is performing.
- 280.4 A professional accountant in public practice 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 professional accountant shall decline or terminate the relevant engagement.



# Part C

## Professional accountants in business (including CGMA designation holders)

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## Section 300

### Introduction

- 300.1 This Part of the Code applies to members in business (AICPA) who hold the CGMA credential and all professional accountants in business (CIMA) including those who hold the CGMA credential (or are entitled to do so).

### Conceptual Framework for Members in Business

- 300.2 Members may encounter various relationships or circumstances that create threats to the member's compliance with the rules and fundamental principles. The rules, fundamental principles and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member's compliance with the rules and fundamental principles that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach as outlined in this interpretation.
- 300.3 The CGMA code specifies that in some circumstances, no safeguards can reduce a threat to an acceptable level. For example, the code specifies that a member may not subordinate the member's professional judgment to others without violating the Integrity and Objectivity Rule and Principles. A member may not use the conceptual framework to overcome this or any other prohibition or requirement in the code.

### Conceptual Framework Approach

- 300.4 Under the conceptual framework approach, members should identify threats to compliance with the rules and fundamental principles and evaluate the significance of those threats. Members should evaluate identified threats both individually and in the aggregate because threats can have a cumulative effect on a member's compliance with the rules and fundamental principles. Members should perform three main steps in applying the conceptual framework approach:
- (a) **Identify threats.** The relationships or circumstances that a member encounters in various engagements and work assignments or positions will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule, fundamental principle or an interpretation, under this approach, the member should determine whether the relationship or circumstance creates one or more threats, such as those identified in paragraphs .07–.12 that follow. The existence of a threat does not mean that the member is not in compliance with the rules and fundamental principles; however, the member should evaluate the significance of the threat.
- (b) **Evaluate the significance of a threat.** In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules and fundamental principles. Members should consider both qualitative and quantitative factors when evaluating the significance of a threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. If the member evaluates the threat and concludes that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat does not compromise a member's compliance with the rules and fundamental principles, the threat is at an acceptable level and the member is not required to evaluate the threat any further under this conceptual framework approach.

(c) **Identify and apply safeguards.** If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the effectiveness of safeguards will vary depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats. In some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member's compliance with the rules, and the member should determine whether to decline or discontinue the professional services or resign from the employing organization.

## Threats

- 300.5** Many threats fall into one or more of the following six broad categories: adverse interest, advocacy, familiarity, self-interest, self-review, and undue influence (also referred to as "intimidation threat").
- 300.6** Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the code. Paragraphs .07-.12 of this section define and provide examples, which are not all inclusive, of each of these threat categories.
- 300.7** **Adverse interest threat.** The threat that a member will not act with objectivity, because the member's interests are opposed to the interests of the employing organization. Examples of adverse interest threats include the following:
- (a) A member has charged, or expressed an intention to charge, the employing organization with violations of law.
  - (b) A member or the member's immediate family or close relative has a financial or another relationship with a vendor, customer, competitor, or potential acquisition of the employing organization.
  - (c) A member has sued or expressed an intention to sue the employing organization or its officers, directors, or employees.
- 300.8** **Advocacy threat.** The threat that a member will promote an organization's interests or position to the point that his or her objectivity is compromised. Examples of advocacy threats include the following:

(a) Obtaining favorable financing or additional capital is dependent upon the information that the member includes in, or excludes from, a prospectus, an offering, a business plan, a financing application, or a regulatory filing.

(b) The member gives or fails to give information that the member knows will unduly influence the conclusions reached by an external service provider or other third party.

**300.9** **Familiarity threat.** The threat that, due to a long or close relationship with a person or an employing organization, a member will become too sympathetic to their interests or too accepting of the person's work or organization's product or service. Examples of familiarity threats include the following:

(a) A member uses an immediate family's or a close relative's company as a supplier to the employing organization.

(b) A member may accept an individual's work product with little or no review because the individual has been producing an acceptable work product for an extended period of time.

(c) A member's immediate family or close relative is employed as a member's subordinate.

(d) A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization.

**300.10** **Self-interest threat.** The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organization or persons associated with the employing organization. Examples of self-interest threats include the following:

(a) A member's immediate family or close relative has a financial interest in the employing organization.

(b) A member holds a financial interest (for example, shares or share options) in the employing organization, and the value of that financial interest is directly affected by the member's decisions.

(c) A member is eligible for a profit or other performance-related bonus, and the value of that bonus is directly affected by the member's decisions.

**300.11 Self-review threat.** The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member, or an individual in the employing organization, and that the member will rely on that service in forming a judgment as part of another service. Examples of self-review threats include the following:

- (a) When performing an internal audit procedure, an internal auditor accepts work that he or she previously performed in a different position.
- (b) The member accepts the work previously performed by the member, alone or with others, that will be the basis for providing another professional service.

**300.12 Undue influence threat.** (also referred to as "intimidation threat"). The threat that a member will subordinate his or her judgment to that of an individual associated with the employing organization or any relevant third party due to that individual's position, reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. Examples of undue influence threats include the following:

- (a) A member is pressured to become associated with misleading information.
- (b) A member is pressured to deviate from a company policy.
- (c) A member is pressured to change a conclusion regarding an accounting or a tax position.
- (d) A member is pressured to hire an unqualified individual.

## Safeguards

**300.13** Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.

**300.14** Safeguards that may eliminate a threat or reduce it to an acceptable level fall into two broad categories:

- (a) Safeguards created by the profession, legislation, or regulation
- (b) Safeguards implemented by the employing organization

**300.15** The effectiveness of a safeguard depends on many factors, including those listed here:

- (a) The facts and circumstances specific to a particular situation
- (b) The proper identification of threats
- (c) Whether the safeguard is suitably designed to meet its objectives
- (d) The party(ies) who will be subject to the safeguard
- (e) How the safeguard is applied
- (f) The consistency with which the safeguard is applied
- (g) Who applies the safeguard
- (h) How the safeguard interacts with a safeguard from another category
- (i) Whether the employing organization is a public interest entity

**300.16** Examples of safeguards within each category are presented in the following paragraphs. Because these are only examples and are not intended to be all inclusive, it is possible that threats may be sufficiently mitigated through the application of other safeguards not specifically identified herein.

300.17 The following are examples of safeguards created by the profession, legislation, or regulation:

- Education and training requirements on ethics and professional responsibilities
- Continuing education requirements on ethics
- Professional standards and the threat of discipline
- Legislation establishing prohibitions and requirements for entities and employees
- Competency and experience requirements for professional licensure and credentials
- Professional resources, such as hotlines, for consultation on ethical issues

300.18 Examples of safeguards implemented by the employing organization are as follows:

- A tone at the top emphasizing a commitment to fair financial reporting and compliance with applicable laws, rules, regulations, and corporate governance policies
- Policies and procedures addressing ethical conduct and compliance with laws, rules, and regulations
- Audit committee charter, including independent audit committee members
- Internal policies and procedures requiring disclosure of identified interests or relationships among the employing organization, its directors or officers, and vendors, suppliers, or customers
- Internal policies and procedures related to purchasing controls
- Internal policies and procedures related to customer acceptance or credit limits
- Dissemination of corporate ethical compliance policies and procedures, including whistle-blower hotlines, the reporting structure, dispute resolution, or other similar policies, to promote compliance with laws, rules, regulations, and other professional requirements
- Human resource policies and procedures safeguarding against discrimination or harassment, such as those concerning a worker's religion, sexualorientation, gender, or disability

- Human resource policies and procedures stressing the hiring and retention of technically competent employees
- Policies and procedures for implementing and monitoring ethical policies
- Assigning sufficient staff with the necessary competencies to projects and other tasks
- Policies segregating personal assets from company assets
- Staff training on applicable laws, rules, and regulations
- Regular monitoring of internal policies and procedures
- A reporting structure whereby the internal auditor does not report to the financial reporting group
- Policies and procedures that do not allow an internal auditor to monitor areas where the internal auditor has operational or functional responsibilities
- Policies for promotion, rewards, and enforcement of a culture of high ethics and integrity
- Use of third-party resources for consultation as needed on significant matters of professional judgment

## Section 310

### Ethical Conflicts

- 310.1 An ethical conflict arises when a member encounters one or both of the following:
- (a) Obstacles to following an appropriate course of action due to internal or external pressures
  - (b) Conflicts in applying relevant professional and legal standards

For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain the confidentiality of his or her employer's confidential information.

- 310.2 Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules, fundamental principles and law. In weighing alternative courses of action, the member should consider factors such as the following:

- (a) Relevant facts and circumstances, including applicable rules, laws, or regulations
- (b) Ethical issues involved
- (c) Established internal procedures

- 310.3 The member should also be prepared to justify any departures that the member believes were appropriate in applying the relevant rules, fundamental principles and law. If the member was unable to resolve the conflict in a way that permitted compliance with the applicable rules, fundamental principles and law, the member may have to address the consequences of any violations.

- 310.4 Before pursuing a course of action, the member should consider consulting with appropriate persons within the organization that employs the member.

- 310.5 If a member decides not to consult with appropriate persons within the organization that employs the member, and the conflict remains unresolved after pursuing the selected course of action, the member should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The member also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.

- 310.6 If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules or fundamental principles if he or she remains associated with the matter creating the conflict. Accordingly, the member should consider his or her continuing relationship with the specific assignment or employer.

### Integrity and Objectivity

- 310.7 **Integrity and Objectivity Rule (AICPA):** In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

- 310.8 **Integrity Principle (CIMA):** The principle of integrity imposes an obligation on all members to be straightforward and honest in all professional and business relationships.

**Objectivity Principle (CIMA):** The principle of objectivity imposes an obligation on all members not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.

## Interpretations under the “Integrity and Objectivity Rule” and the “Integrity and Objectivity Principles”

### Application of the Conceptual Framework for Members in Business and Ethical Conflicts

- 310.9 In the absence of an interpretation of the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business”. (300.2-300.3).
- 310.10 A member will be considered in violation of the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.
- 310.11 A member should consider the guidance in the “Ethical Conflicts” interpretation (310.1-310.6) when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional and legal standards, or both.

## Section 320

### Conflicts of Interest

#### Conflicts of Interest for Members in Business

- 320.1 A member in business may be faced with a conflict of interest when undertaking a professional service. In determining whether a professional service, relationship, or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

- 320.2 A conflict of interest creates adverse interest and self-interest threats to the member’s compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles. For example, threats may be created when:

- (a) a member undertakes a professional service related to a particular matter involving two or more parties whose interests with respect to that matter are in conflict; or
- (b) the interests of a member with respect to a particular matter and the interests of a party for whom the member undertakes a professional service related to that matter are in conflict.

- 320.3 A party may include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

- 320.4 The following are examples of situations in which conflicts of interest may arise:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the member to the advantage or disadvantage of the other employing organization.
- Undertaking a professional service for each of two parties in a partnership employing the member to assist in dissolving their partnership.
- Preparing financial information for certain members of management of the employing organization who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the member’s employing organization when the member or his or her immediate family member could benefit financially from the transaction.
- Serving in a governance capacity or influencing an employing organization that is approving certain investments for the company in which one of those specific investments will increase the value of the personal investment portfolio of the member or his or her immediate family member.

## Identification of a Conflict of Interest

320.5 In identifying whether a conflict of interest exists or may be created, a member should take reasonable steps to determine:

- (a) The nature of the relevant interests and relationships between the parties involved and;
- (b) the nature of the services and its implication for relevant parties.

320.6 The nature of the relevant interests and relationships and the services may change over time. The member should remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

## Evaluation of a Conflict of Interest

320.7 When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level. Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level.

320.8 In evaluating the significance of an identified threat, members should consider the following:

- (a) The significance of relevant interests or relationships.
- (b) The significance of the threats created by undertaking the professional service or services. In general, the more direct the connection between the member and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

320.9 If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of safeguards include the following:

- (a) Restructuring or segregating certain responsibilities and duties
- (b) Obtaining appropriate oversight
- (c) Withdrawing from the decision making process related to the matter giving rise to the conflict of interest
- (d) Consulting with third parties, such as a professional body, legal counsel, or another professional accountant

320.10 In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should:

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

## Disclosure of a Conflict of Interest and Consent

320.11 When a conflict of interest exists, the member should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and obtain their consent to undertake the professional service. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

320.12 The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.

**320.13** When addressing a conflict of interest, a member is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel, or another professional accountant. When making disclosures and seeking guidance of third parties, the member should remain alert to the requirements of the “Confidential Information Obtained From Employment or Volunteer Activities”, interpretation of the “Acts Discreditable Rule” and the Integrity and Objectivity principles (370.1 and 310.8). In addition, federal, state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the CGMA code.

**320.14** A member may encounter other threats to compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close relatives or immediate family members of the member have with the employing organization. Guidance on managing such threats is covered by the “Knowing Misrepresentations in the Preparation of Financial Statements or Records”, interpretation (340.1-340.2) and the “Subordination of Judgment by a Member”, interpretation (340.3-340.13).

## Section 330

### Gifts, Entertainment and Other Forms of Inducements

#### Offering or Accepting Gifts or Entertainment

**330.1** For purposes of this interpretation, a customer or vendor of the member’s employer includes a representative of the customer or vendor.

**330.2** When a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member’s employer, self-interest, familiarity, or undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles may exist.

**330.3** Threats to compliance with the “Integrity and Objectivity Rule” and the “Integrity Principle” would not be at an acceptable level and could

not be reduced to an acceptable level by the application of safeguards and the member would be presumed to lack integrity in violation of the “Integrity and Objectivity Rule” and the “Integrity Principle” in the following circumstances:

(a) The member offers to, or accepts gifts or entertainment from, a customer or vendor of the member’s employer that violate applicable laws, rules, or regulations or the policies of the member’s employer or the customer or vendor.

(b) The member knows of the violation or demonstrates recklessness in not knowing.

**330.4** A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. The following are examples of relevant facts and circumstances:

- The nature of the gift or entertainment
- The occasion giving rise to the gift or entertainment
- The cost or value of the gift or entertainment
- The nature, frequency, and value of other gifts and entertainment offered or accepted
- Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
- Whether other customers or vendors also participated in the entertainment
- The individuals from the customer or vendor and a member’s employer who participated in the entertainment

**330.5** Threats to compliance with the “Integrity and Objectivity Rule” and the “Objectivity Principle” would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member’s employer that is not reasonable in the circumstances. The member would be considered to lack objectivity in violation of the “Integrity and Objectivity Rule” and the “Objectivity Principle” under these circumstances.

## Offering or Accepting Other Forms of Inducements

- 330.6 Threats to compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles may also exist when a member or his or her immediate family or close relative offer to, or accept from, a third party other forms of inducements such as, preferential treatment or inappropriate appeals to friendship or loyalty.
- 330.7 For example, self-interest threats are created when an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or unethical behavior, or obtain confidential information, and undue influence threats are created if such an inducement is offered or accepted and it is followed by threats to make that offer public and damage the reputation of either the member or an immediate family member or close relative.
- 330.8 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when the inducement is reasonable in the circumstances [see 330.4] and not intended to encourage unethical behavior.
- 330.9 Threats to compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member offers to, or accepts inducements from, a third party that are not reasonable in the circumstances or are intended to encourage unethical behavior. The member would be considered to lack integrity and objectivity in violation of the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles under these circumstances.

## Section 340

### Preparing and Reporting Information

#### Knowing Misrepresentations in the Preparation of Financial Statements or Records

- 340.1 Members in business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management’s discussion and analysis, and the management letter of representation provided to the auditors during the audit of the entity’s financial statements.
- 340.2 Threats to compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and the member would be considered to have knowingly misrepresented facts in violation of the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles if the member:
- (a) makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records;
  - (b) fails to correct an entity’s financial statements or records that are materially false and misleading when the member has the authority to record the entries; or
  - (c) signs, or permits or directs another to sign, a document containing materially false and misleading information.

## Subordination of Judgement

- 340.3 The “Integrity and Objectivity Rule” and the Integrity and Objectivity principles prohibit a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services for an employer or on a volunteer basis. This interpretation addresses differences of opinion between a member and his or her supervisor or any other person within the member’s organization.
- 340.4 Self-interest, familiarity, and undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles may exist when a member and his or her supervisor or any other person within the member’s organization have a difference of opinion relating to the application of accounting principles; auditing standards; or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulations.
- 340.5 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level if the member concludes that the position taken does not result in a material misrepresentation of fact or a violation of applicable laws or regulations. If threats are not at an acceptable level, the member should apply the safeguards in paragraphs .06–.08 to eliminate or reduce the threat(s) to an acceptable level so that the member does not subordinate his or her judgment.
- 340.6 In evaluating the significance of any identified threats, the member should determine, after appropriate research or consultation, whether the result of the position taken by the supervisor or other person
- (a) fails to comply with professional standards, when applicable;
  - (b) creates a material misrepresentation of fact; or
  - (c) may violate applicable laws or regulations.
- 340.7 If the member concludes that threats are at an acceptable level the member should discuss his or her conclusions with the person taking the position. No further action would be needed under this interpretation.
- 340.8 If the member concludes that the position results in a material misrepresentation of fact or a violation of applicable laws or regulations, then threats would not be at an acceptable level. In such circumstances, the member should discuss his or her concerns with the supervisor.
- 340.9 If the difference of opinion is not resolved after discussing the concerns with the supervisor, the member should discuss his or her concerns with the appropriate higher level(s) of management within the member’s organization (for example, the supervisor’s immediate superior, senior management, and those charged with governance).
- 340.10 If after discussing the concerns with the supervisor and appropriate higher level(s) of management within the member’s organization, the member concludes that appropriate action was not taken, then the member should consider, in no specific order, the following safeguards to ensure that threats to the member’s compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles are eliminated or reduced to an acceptable level:
- Determine whether the organization’s internal policies and procedures have any additional requirements for reporting differences of opinion.
  - Determine whether he or she is responsible for communicating to third parties, such as regulatory authorities or the organization’s (former organization’s) external accountant. In considering such communications, the member should be cognizant of his or her obligations under the “Confidential Information Obtained from Employment or Volunteer Activities” interpretation (370.5-370.23) and the “Obligation of a Member to His or Her Employer’s External Accountant” interpretation (340.14).
  - Consult with his or her legal counsel regarding his or her responsibilities.
  - Document his or her understanding of the facts, the accounting principles, auditing standards, or other relevant professional standards involved or applicable laws or regulations and the conversations and parties with whom these matters were discussed.

- 340.11 If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then he or she should consider the continuing relationship with the member's organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.
- 340.12 Nothing in this interpretation precludes a member from resigning from the organization at any time. However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employer's (former employer's) external accountant.
- 340.13 A member should use professional judgment and apply similar safeguards, as appropriate, to other situations involving a difference of opinion as described in this interpretation so that the member does not subordinate his or her judgment.

### **Obligation of a Member to His or Her Employer's External Accountant**

- 340.14 The "Integrity and Objectivity Rule" and the Integrity and Objectivity principles require a member to maintain objectivity and integrity in the performance of a professional service. When dealing with an employer's external accountant, a member must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts. This would include, for example, responding to specific inquiries for which the employer's external accountant requests written representation.

## Section 350

### **Educational Services**

- 350.1 Members who perform educational services, such as teaching full or part time at a university, teaching a continuing professional education course, or engaging in research and scholarship, are performing professional services and, therefore, are subject to the "Integrity and Objectivity Rule" and the Integrity and Objectivity principles.

## Section 360

### **General Standards/Professional Competence and Due Care**

#### **General Standards Rule (AICPA)**

- 360.1 A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council.
- (a) Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
- (b) Due Professional Care. Exercise due professional care in the performance of professional services.
- (c) Planning and Supervision. Adequately plan and supervise the performance of professional services.
- (d) Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

#### **Professional Competence and Due Care Principle (CIMA)**

- 360.2 The principle of Professional Competence and Due Care imposes the following obligations on all professional accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that employers receive competent professional service
- (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.

## Interpretations under the “General Standards Rule” and “Professional Competence and Due Care Principle”

### Application of the Conceptual Framework for Members in Business and Ethical Conflicts

360.3 In the absence of an interpretation of the “General Standards Rule” and “Professional Competence and Due Care Principle” that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business” (300.2 – 300.3).

360.4 A member would be considered in violation of the “General Standards Rule” and “Professional Competence and Due Care Principle” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

360.5 A member should consider the guidance in the “Ethical Conflicts” interpretation (310.1) when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional and legal standards, or both.

### Professional Competence and Due Care

360.6 Competence, in this context, means that the member or member’s staff possesses the appropriate technical qualifications to perform professional services and, as required, supervises and evaluates the quality of work performed. Competence encompasses knowledge of the profession’s standards, the techniques and technical subject matter involved, and the ability to exercise sound judgment in applying such knowledge in the performance of professional services.

360.7 A member’s agreement to perform professional services implies that the member has the necessary competence to complete those services according to professional standards and to apply the member’s knowledge and skill with reasonable care and diligence. However, the member does not assume a responsibility for infallibility of knowledge or judgment.

360.8 The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. A normal part of providing professional services involves performing additional research or consulting with others to gain sufficient competence.

360.9 Threats to the member’s compliance with the “General Standards Rule” and “Professional Competence and Due Care Principle” may exist if the member is performing professional services and the member has:

- insufficient time for properly performing or completing the relevant duties;
- incomplete, restricted or otherwise inadequate information for performing the duties properly;
- insufficient experience, training or education, or both; or
- inadequate resources for the proper performance of the duties.

360.10 The significance of the threats will depend on factors such as the extent to which the member is working with others, relative seniority in the business, and the level of supervision and review applied to the work. The member should evaluate the significance of any threats and apply safeguards, when necessary, to eliminate or reduce the threats to an acceptable level. Examples of such safeguards include:

- performing additional research or obtaining additional advice or training.
- ensuring that there is adequate time available for performing the relevant duties.
- obtaining assistance from someone with the necessary expertise.
- consulting, where appropriate, with
  - superiors within the employing organization;
  - independent experts; or
  - a relevant professional body.

- 360.11 If the member determines that the threats are so significant that no safeguards could eliminate or reduce the threats to an acceptable level, and therefore the member is unable to gain sufficient competence, the member should suggest the involvement of a competent person to perform the needed professional service, either independently or as an associate.

### Submission of Financial Statements

- 360.12 When a member is a stockholder, a partner, a director, an officer, or an employee of an entity and, in this capacity, prepares or submits the entity's financial statements to third parties, the member should clearly communicate, preferably in writing, the member's relationship to the entity and should not imply that the member is independent of the entity. In addition, if the communication states affirmatively that the financial statements are presented in conformity with the applicable financial reporting framework, the member should comply with the "Accounting Principles Rule" and the "Professional Competence and Due Care Principle".
- 360.13 AICPA members should refer to the "Use of CPA Credential" interpretation (370.26) for additional guidance.

### Compliance with Standards/Professional Competence and Due Care

#### Compliance with Standards Rule (AICPA)

- 360.14 A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.

#### Professional Competence and Due Care Principle (CIMA)

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

### Interpretations under the "General Standards Rule" and "Professional Competence and Due Care Principle"

#### Application of the Conceptual Framework for Members in Business and Ethical Conflicts

- 360.16 In the absence of an interpretation of the "Compliance with Standards Rule" and the "Professional Competence and Due Care Principle" that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business" (300.2-300.3).
- 360.17 A member would be considered in violation of the "Compliance with Standards Rule" and the "Professional Competence and Due Care Principle" if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.
- 360.18 A member should consider the guidance in the "Ethical Conflicts" interpretation (310.1) when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional or legal standards, or both.

### Accounting Principles

#### Accounting Principles Rule (AICPA)

- 360.19 A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

## **Professional Competence and Due Care Principle (CIMA)**

- 360.20 The principle of professional competence and due care imposes the following obligations on all professional accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that employers receive competent professional service
  - (b) To act diligently in accordance with applicable technical and professional standards when providing professional services

## **Interpretations under the "Accounting Principles Rule" and the "Professional Competence and Due Care Principle"**

### **Application of the Conceptual Framework for Members in Business and Ethical Conflicts**

- 360.21 In the absence of an interpretation of the "Accounting Principles Rule" and the "Professional Competence and Due Care Principle" that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business" (30.2-300.3).
- 360.22 A member would be considered in violation of the "Accounting Principles Rule" and the "Professional Competence and Due Care Principle" if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.
- 360.23 A member should consider the guidance in the "Ethical Conflicts" interpretation (310.1) when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional or legal standards, or both.

## **Responsibility for Affirming that Financial Statements Are in Conformity With the Applicable Financial Reporting Framework (AICPA)**

- 360.24 A member shall not state affirmatively that an entity's financial statements or other financial data are presented in conformity with generally accepted accounting principles (GAAP) if such statements or data contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles. Members who affirm that financial statements or other financial data are presented in conformity with GAAP should comply with "Accounting Principles Rule". A member's representation in a letter or other communication that an entity's financial statements are in conformity with GAAP may be considered an affirmative statement within the meaning of this rule with respect to the member who signed the letter or other communication (for example, the member signed a report to a regulatory authority, a creditor, or an auditor).

## **Responsibility for Affirming that Financial Statements Are in Conformity With the Applicable Financial Reporting Framework (CIMA)**

- 360.25 A member of CIMA who has responsibility for the preparation or approval of the general purpose financial statements of an employing organization shall be satisfied that those financial statements are presented in accordance with the applicable financial reporting standards.

## Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations (AICPA)

- 360.26 The “Accounting Principles Rule” authorizes Council to designate bodies to establish accounting principles. Council has designated the U.S. Financial Accounting Standards Board (FASB) as such a body and has resolved that FASB Accounting Standards Codification® (ASC) constitutes accounting principles as contemplated in the rule. Council designated the U.S. Governmental Accounting Standards Board (GASB), with respect to Statements of Governmental Accounting Standards issued in July 1984 and thereafter, as the body to establish financial accounting principles for state and local governmental entities, pursuant to the “Accounting Principles Rule”. Council designated the U.S. Federal Accounting Standards Advisory Board (FASAB), with respect to Statements of Federal Accounting Standards adopted and issued in March 1993 and subsequently, as the body to establish accounting principles for federal government entities, pursuant to the “Accounting Principles Rule”. Council designated the International Accounting Standard Board (IASB) as an accounting body for purposes of establishing international financial accounting and reporting principles.
- 360.27 Reference to GAAP in the “Accounting Principles Rule” means those accounting principles promulgated by bodies designated by Council, which are listed in paragraph .01 “Council Resolution Designating Bodies to Promulgate Technical Standards”.
- 360.28 The AICPA Professional Ethics Division will look to the codification or statements and any interpretations thereof issued by FASB, GASB, FASAB, or IASB in determining whether a member of the AICPA has departed from an accounting principle established by a designated accounting standard-setter in FASB ASC, a Statement of Governmental Accounting Standards, a Statement of Federal Accounting Standards, or International Financial Reporting Standards (IFRS).

## Departures from Generally Accepted Accounting Principles (AICPA)

- 360.29 It is difficult to anticipate all the circumstances in which accounting principles may be applied. However, there is a strong presumption that adherence to GAAP would, in nearly all instances, result in financial statements that are not misleading. The “Accounting Principles Rule” recognizes that, upon occasion, there may be unusual circumstances when the literal application of GAAP would have the effect of rendering financial statements misleading. In such cases, the proper accounting treatment to apply is that which will not render the financial statements misleading.
- 360.30 The question of what constitutes unusual circumstances, as referred to in the “Accounting Principles Rule” is a matter of professional judgment involving the ability to support the position that adherence to a promulgated principle within GAAP would be regarded generally by reasonable persons as producing misleading financial statements.
- 360.31 Examples of circumstances that may justify a departure from GAAP include new legislation or evolution of a new form of business transaction. Examples of circumstances that would not justify departures from GAAP include an unusual degree of materiality or conflicting industry practices.
- 360.32 If the statements or data contain such departures, see the “Accounting Principles Rule” for further guidance.

## Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP (AICPA)

- 360.33 Reference to GAAP in the “Accounting Principles Rule” means those accounting principles promulgated by bodies designated by Council. The bodies designed by Council to promulgate accounting principles are
- FASAB,
  - FASB,
  - GASB, and
  - IASB.

360.34 Financial statements prepared pursuant to other accounting principles would be considered financial reporting frameworks other than GAAP within the context of the "Accounting Principles Rule".

360.35 However, the "Accounting Principles Rule" does not preclude a member from preparing or reporting on financial statements that have been prepared pursuant to financial reporting frameworks other than GAAP, such as:

- (a) financial reporting frameworks generally accepted in another country, including jurisdictional variations of IFRS such that the entity's financial statements do not meet the requirements for full compliance with IFRS, as promulgated by the IASB;
- (b) financial reporting frameworks prescribed by an agreement or a contract; or
- (c) other special purpose frameworks, including statutory financial reporting provisions required by law or a U.S. or foreign governmental regulatory body to whose jurisdiction the entity is subject.

360.36 In such circumstances, however, the financial statements or member's reports thereon should not purport that the financial statements are in accordance with GAAP and the financial statements or reports on those financial statements, or both, should clarify the financial reporting framework(s) used.

## Section 370

### Acts Discreditable/Professional Behavior/Confidentiality

#### Acts Discreditable Rule (AICPA)

370.1 A member shall not commit an act discreditable to the profession.

#### Professional Behavior Principle (CIMA)

370.2 The principle of professional behavior imposes an obligation on all members to comply with relevant laws and regulations and avoid any action that the member knows or should know may discredit the profession.

#### Confidentiality Principle (CIMA)

370.3 The principle of confidentiality imposes an obligation on all members 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 professional accountant or third parties.

#### Interpretations under the "Acts Discreditable Rule" and "Professional Behavior and Confidentiality Principles"

#### Application of the Conceptual Framework for Members in Business and Ethical Conflicts

370.4 In the absence of an interpretation of the "Acts Discreditable Rule" and the Professional Behavior and Confidentiality principles that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business" (300.2-300.3).

370.5 A member would be considered in violation of the "Acts Discreditable Rule" and the Professional Behavior and Confidentiality principles if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

370.6 A member should consider the guidance in the "Ethical Conflicts" interpretation (310.1) when addressing ethical conflicts that may arise when the member encounters obstacles to follow an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional standards or legal standards, or both.

## **Discrimination and Harassment in Employment Practices**

**370.7** A member would be presumed to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" and the "Professional Behavior Principle" if a final determination, no longer subject to appeal, is made by a court or an administrative agency of competent jurisdiction that a member has violated any antidiscrimination laws of the country, state, or municipality, including those related to sexual and other forms of harassment.

## **Solicitation or Disclosure of CPA/CIMA Examination Questions and Answers**

**370.8** A member who solicits or knowingly discloses the Uniform CPA Examination or the CIMA Examination question(s) or answer(s), or both, without the AICPA's or CIMA's respective written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" and the "Professional Behavior Principle".

## **Failure to File a Tax Return or Pay a Tax Liability**

**370.9** A member who fails to comply with applicable federal, state, or local laws or regulations regarding (a) the timely filing of the member's personal tax returns or tax returns for the member's employer that the member has the authority to timely file or (b) the timely remittance of all payroll and other taxes collected on behalf of others may be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" and the "Professional Behavior Principle".

## **Negligence in the Preparation of Financial Statements or Records**

**370.10** A member would be considered in violation of the "Acts Discreditable Rule" and the "Professional Behavior Principle" if the member, by virtue of his or her negligence, does any of the following:

(a) Makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity

(b) Fails to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry

(c) Signs, or permits or directs another to sign, a document containing materially false and misleading information

## **Governmental Bodies, Commissions, or Other Regulatory Agencies**

**370.11** Many governmental bodies, commissions, or other regulatory agencies have established requirements, such as standards, guides, rules, and regulations, that members are required to follow in the preparation of financial statements or related information.

**370.12** If a member prepares financial statements or related information (for example, management's discussion and analysis) for purposes of reporting to such bodies, commissions, or regulatory agencies, the member should follow the requirements of such organizations in addition to the applicable financial reporting framework.

**370.13** A member's material departure from such requirements would be considered a violation of the "Acts Discreditable Rule" and the "Professional Behavior Principle" unless the member discloses in the financial statements or related information that such requirements were not followed and the applicable reasons.

## Indemnification and Limitation of Liability Provisions

- 370.14 Certain governmental bodies, commissions, or other regulatory agencies (collectively, regulators) have established requirements through laws, regulations, or published interpretations that
- (a) prohibit entities subject to their regulation (regulated entity) from including certain types of indemnification and limitation of liability provisions in agreements for the performance of audit or other attest or assurance services on behalf of the employing organization that are required by such regulators; or
  - (b) provide that the existence of such provisions disqualifies a member from rendering such services to these entities.
- 370.15 If a member enters into, or directs or knowingly permits another individual to enter into, a contract for the performance of audit or other attest or assurance services that are subject to the requirements of these regulators, the member should not include, or knowingly permit or direct another individual to include, an indemnification or limitation of liability provision that would cause the regulated entity or a member to be in violation of such requirements or disqualify a member from providing such services to the regulated entity. A member who enters into, or directs or knowingly permits another individual to enter into, such an agreement for the performance of audit or other attest services would be considered in violation of the "Acts Discreditable Rule" and the "Professional Behavior Principle".

## Confidential Information Obtained From Employment or Volunteer Activities

- 370.16 A member should maintain the confidentiality of his or her employer's confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity).
- 370.17 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity

that is not known to be available to the public and is obtained as a result of such relationships.

- 370.18 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.
- 370.19 When a member changes employment, a member should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.
- 370.20 A member would be considered in violation of the "Acts Discreditable Rule" and "Confidentiality Principle" if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.

**370.21** The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- (a) Disclosure is permitted by law and authorized by the employer.
- (b) Disclosure is required by law, for example, to
  - comply with a validly issued and enforceable subpoena or summons or
  - inform the appropriate public authorities of violations of law that have been discovered.
- (c) There is a professional responsibility or right to disclose information, when not prohibited by law, to
  - initiate a complaint with, or respond to any inquiry made by, the AICPA Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body (AICPA);
  - initiate a complaint with, or respond to any inquiry made by, the CIMA Professional Conduct Department or a duly constituted investigative or disciplinary body of CIMA, or other regulatory body (CIMA);
  - protect the member’s professional interests in legal proceedings;
  - comply with professional standards (for example, technical standards) and other ethics requirements; or
  - report potential concerns regarding questionable accounting, auditing, or other matters to the employer’s confidential complaint hotline or those charged with governance.
- (d) Disclosure is permitted on behalf of the employer to
  - obtain financing with lenders;
  - communicate with vendors and customers; or
  - communicate with the employer’s external accountant, attorneys, regulators, and other business professionals.

**370.22** In deciding whether to disclose confidential employer information relevant factors to consider include the following:

- (a) Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the member should use professional judgment in determining the type of disclosure to be made, if any.
- (b) Whether the parties to whom the communication may be addressed are appropriate recipients.

**370.23** A member may wish to consult with legal counsel prior to disclosing, or determining whether to disclose, confidential employer information

**370.24** Refer to the “Subordination of Judgment” interpretation (340.3-340.13) for additional guidance.

### **False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services**

**370.25** A member would be in violation of the “Acts Discreditable Rule” and the “Professional Behavior Principle” if the member promotes or markets the member’s abilities to provide professional services or makes claims about the member’s experience or qualifications in a manner that is false, misleading, or deceptive.

**370.26** Promotional efforts would be false, misleading, or deceptive if they contain any claim or representation that would likely cause a reasonable person to be misled or deceived. This includes any representation about CPA licensure, CGMA credential or any other professional certification or accreditation that is not in compliance with the requirements of the relevant licensing authority or designating body.

### **Use of the CPA Credential (AICPA)**

**370.27** A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA credential. A member who fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of the “Acts Discreditable Rule”.

# Definitions

## Parts A and B

In Parts A and B of the CIMA Code of Ethics for Professional Accountants, the following expressions have the following meanings assigned to them: Please see the next section for definitions applicable to Part C of the Code.

<b>Acceptable level</b>	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 professional accountant at that time, that compliance with the fundamental principles is not compromised	<b>Assurance team</b>	<ul style="list-style-type: none"> <li>a) All members of the engagement team for the assurance engagement;</li> <li>(b) All others within a firm who can directly influence the outcome of the assurance 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 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> </li> </ul>
<b>Advertising</b>	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.		
<b>Assurance client</b>	<p>The responsible party that is the person (or persons) who:</p> <ul style="list-style-type: none"> <li>(a) In a direct reporting engagement, is responsible for the subject matter; or</li> <li>(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</li> </ul>	<b>Audit client</b>	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.
<b>Assurance engagement</b>	An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)	<b>Audit engagement</b>	A reasonable assurance engagement in which a professional accountant 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.

<b>Audit team</b>	<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>	<b>Director or officer</b>	<p>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..</p>
		<b>Engagement partner</b>	<p>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.</p>
		<b>Engagement quality control review</b>	<p>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.</p>
		<b>Engagement team*</b>	<p>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.</p>
		<b>Engagement team+</b>	<p>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.</p> <p>The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ASA 610 (Revised 2013) <i>Using the Work of Internal Auditors</i>.<sup>2</sup></p>
<b>Close family</b>	<p>A parent, child or sibling who is not an immediate family member. (See also definition of "immediate family")</p>		
<b>Contingent fee</b>	<p>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.</p>		
<b>Direct financial interest</b>	<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>	<b>Existing accountant</b>	<p>A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.</p>

\* This definition is effective for audits of financial statements for periods ending before December 15, 2014.

+ This revised definition is effective for audits of financial statements for periods ending on or after December 15, 2014. Early adoption is permitted.

2. ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

<b>External expert</b>	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.	<b>Immediate family</b>	A spouse (or equivalent) or dependent.
<b>Financial interest</b>	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.	<b>Independence</b>	Independence is:  (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism  (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, 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 skepticism has been compromised.
<b>Financial statements</b>	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.	<b>Indirect financial interest</b>	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.
<b>Financial statements on which the firm will express an opinion</b>	An 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.	<b>Key audit partner</b>	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.
<b>Firm</b>	(a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties, through ownership, management or other means; and (c) An entity controlled by such parties, through ownership, management or other means.	<b>Listed entity</b>	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.
<b>Historical financial information</b>	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.		

<b>Network</b>	A larger structure:  (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.	<b>Public interest entity</b>	(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.
<b>Network firm</b>	A firm or entity that belongs to a network.	<b>Related entity</b>	An entity that has any of the following relationships with the client:  (a) An entity that has direct or indirect control over the client if the client is material to such entity; (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; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
<b>Office</b>	A distinct sub-group, whether organized on geographical or practice lines.		
<b>Professional accountant</b>	An individual who is a member of an IFAC member body..		
<b>Professional accountant in business</b>	A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.		
<b>Professional accountant in public practice</b>	A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.		
<b>Professional Activity (Ref Parts A and B)</b>	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.	<b>Review client</b>	An entity in respect of which a firm conducts a review engagement.
<b>Professional services (Ref Parts A and B)</b>	Professional activities performed for clients.		

**Review engagement**

An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant 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 accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

**Review team**

- (a) All members of the engagement team for the review engagement; and
- (b) All others within a firm who can directly influence the outcome of the review engagement, including:
  - (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);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

**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 person(s) or organization(s) (for example, a corporate trustee) 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.

For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

# Definitions

## Part C

In Part C of the CIMA Code of Ethics for Professional Accountants, the following expressions have the following meanings assigned to them:

<b>Acceptable level</b>	An acceptable level is a level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's compliance with the rules or fundamental principles is not compromised.	<b>Financial interest</b>	An ownership interest in an equity or a debt security issued by an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
<b>Client</b>	<p>Any person or entity, other than the member's employer, that engages a member or member's firm to perform professional services and, if different, the person or entity with respect to which professional services are performed. For purposes of this definition for AICPA members, the term employer does not include the following:</p> <p>(a) Person or entity engaged in public practice.</p> <p>(b) Federal, state, and local government or component unit thereof, provided that the member performing professional services with respect to the entity is</p> <p>(i) directly elected by voters of the government or component unit thereof with respect to which professional services are performed;</p> <p>(ii) an individual who is (1) appointed by a legislative body and (2) subject to removal by a legislative body; or</p> <p>(iii) appointed by someone other than the legislative body, so long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body.</p>	<b>Financial statements</b>	A presentation of financial data, including accompanying disclosures, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with the applicable financial reporting framework. Tax returns and supporting schedules do not, for this purpose, constitute financial statements. The statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion.
<b>Close relative</b>	A parent, sibling, or nondependent child.	<b>Immediate family</b>	A spouse, spousal equivalent, or dependent (regardless of whether the dependent is related).
<b>Council</b>	The AICPA Council.	<b>Institute</b>	The AICPA or CIMA
<b>Employing organisation</b>	Any entity that employs the member or engages the member on a contractual or volunteer basis in an executive, a staff, a governance, an advisory, or an administrative capacity to provide professional services.	<b>Interpretation</b>	Pronouncements issued by the AICPA and CIMA to provide guidelines concerning the scope and application of the rules of conduct and fundamental principles.
		<b>Member</b>	A member of the AICPA is a member, an associate or affiliate member or international associate of the AICPA. A member of CIMA is a Fellow or Associate of the Institute, and includes, for the purposes of the disciplinary powers and procedures of the Institute, a person who ceased to be a member on or after June 14, 2003. When used in this code, the term member means a member in business or professional accountant in business and who is a CGMA (or entitled to use the designation CGMA).
		<b>Member(s) in business or professional accountant(s) in business</b>	A member who is employed or engaged on a contractual or volunteer basis in a(n) executive, staff, governance, advisory, or administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, and regulatory or professional bodies. This does not include a member engaged in public practice.

<b>Professional services</b>	Include all services requiring accountancy or related skills that are performed by a member for an employer, or on a volunteer basis. These services include, but are not limited to accounting, tax, bookkeeping, management consulting, financial management, corporate governance, business valuation and educational services. For AICPA members, it also includes those services for which standards are promulgated by bodies designated by AICPA Council.	<b>Safeguards</b>	Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.
<b>Public interest entity(ies)</b>	Public interest entities are (a) all listed entities, including entities whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body, and (b) any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to an audit of listed entities. Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include (a) the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders; (b) size; and (c) number of employees.	<b>Those charged with governance</b>	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager). When an interpretation requires communicating with those charged with governance, the member should determine, considering the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the member communicates with a subgroup of those charged with governance (for example, an audit committee or an individual), the member should determine whether communication with all of those charged with governance is also necessary, so that they are adequately informed.
<b>Public practice</b>	Consists of the performance of professional services for a client by a member or member's firm.	<b>Threat(s)</b>	Relationships or circumstances that could compromise a member's compliance with the rules or fundamental principles.

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Chartered Institute of  
Management Accountants  
The Helicon  
One South Place  
London EC2M 2RB  
United Kingdom  
T. +44 (0) 20 8849 2251  
E. [cima.contact@cimaglobal.com](mailto:cima.contact@cimaglobal.com)  
W. [www.cimaglobal.com](http://www.cimaglobal.com)

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