



CIMA Code of Ethics

For Professional Accountants.

Issued January 2020

Contents

CIMA preface	04
CIMA Code at a glance	05
Part 1	
Complying with the Code, fundamental principles and conceptual framework	08
100 Complying with the Code	09
110 The fundamental principles	09
111 Integrity	10
112 Objectivity	10
113 Professional competence and due care	10
114 Confidentiality	11
115 Professional behaviour	12
120 The conceptual framework	12
Part 2	
Professional accountants in business (Including CGMA® designation holders)	17
200 Applying the conceptual framework – members in business	18
210 Ethical conflicts	21
220 Conflicts of interest	22
230 Inducements including gifts and hospitality	24
240 Preparation and presentation of information	27
250 Educational services	30
260 General standards / professional competence and due care	30
270 Acts discreditable / professional behaviour / confidentiality	34
280 Pressure to breach the rules / fundamental principles	38
290 Responding to non-compliance with laws and regulations (CIMA only)	39

Part 3
Professional accountants in public practice **45**

300	Applying the conceptual framework – professional accountants in public practice	46
310	Conflicts of interest	49
320	Professional appointments	52
321	Second opinions	54
330	Fees and other types of remuneration	55
340	Inducements including gifts and hospitality	56
350	Custody of client assets	59
360	Responding to non-compliance with laws and regulations	59

Glossary (Parts 1, 3, 4a and 4b) **68**

Glossary (Part 2) **75**

Annex 1 – Separate document

Part 4A independence for audit and review engagement

Part 4B independence for assurance engagements other than audit and review engagements

For Annex 1 of the Code, please refer directly to the full IFAC [International Code of Ethics](#) for Professional Accountants.

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 that 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 1 and 3 of this Code are based on the IFAC¹ Code of Ethics that was developed with the help of input from CIMA and the global accountancy profession. Part 2 of the Code was developed in cooperation with the American Institute of CPAs (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 emphasise its importance for businesses worldwide. Part 2 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, they should seek legal advice as to both their legal rights and any obligations they may have. The CIMA Charter, Byelaws and Regulations give definitive rules on many matters.

For further information see: 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.

¹International Federation of Accountants.

Parts 1 - 3 and Annex 1 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 2018. Copy right © July 2018 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Contact Permissions@ifac.org for permission to reproduce, store or transmit, or to make similar uses of this document.

CIMA Code at a glance

How the Code is structured

Part 1: Complying with the Code, fundamental principles, and conceptual framework

Part 1 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 1 is applicable to all professional accountants. The five fundamental principles listed in Part 1 are Integrity (111), Objectivity (112), Professional competence and due care (113), Confidentiality (114), and Professional behaviour (115).

Part 2: Professional accountants in business (including CGMA designation holders)

Part 2 sets out additional material that applies to professional accountants in business when performing professional activities. Part 2 of the Code was developed in cooperation with the American Institute of CPAs (AICPA); and, like Parts 1 and 3, the elements of the updated Part 2 that apply to CIMA members and students continue to reflect fundamental principles and conceptual framework approach.

Professional accountants in business include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:

- Commerce, industry or service
- The public sector
- Education
- The not-for-profit sector
- Regulatory or professional bodies.

Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee, or owner.

Part 2 section 210 addresses ethical conflicts, and includes an interpretation under CIMA's Integrity and Objectivity Principles, and AICPA's Integrity and Objectivity Rule. Section 220 addresses conflicts of interest, including how they are identified, evaluated and disclosed. Offering or accepting gifts, entertainment and other forms of inducements are found in section 230. Preparing and reporting information (240) is addressed with subheadings including "knowing misrepresentations in the preparation of financial

statements or records", "subordination of judgment", and "obligation of a member to their employer's external accountant".

Information related to educational services can be found in section 250. Section 260 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 270, 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".

A new section, Section 280, addresses pressure to breach the rules or fundamental principles, and Section 290 sets out requirements and application material for professional accountants in business in responding to non-compliance with laws and regulations (NOCLAR). The provisions in Section 290 only apply to CIMA members including those who hold the CGMA credential (or are entitled to do so) and do not apply to AICPA members who hold the CGMA credential (or are entitled to do so).

Part 3: Professional accountants in public practice

Part 3 sets out additional material that applies to professional accountants in public practice when providing professional services.

It provides examples of threats that could be encountered and how such threats might be evaluated and addressed. Requirements relating to communicating with those charged with governance is also covered (300.9).

Part 3 addresses conflicts of interest (310), professional appointments including client and engagement acceptance and changes in a professional appointment (320), second opinions (321), fees and other types of remuneration (330), inducements including gifts and hospitality (340), custody of client assets (350), and responding to non-compliance with laws and regulations (360).

Annex 1

Part 4a – Independence for audit and review engagements

Part 4b – Independence for assurance engagements other than audit and review engagements

These Parts collectively form the *International Independence Standards*, and set out additional material that applies to professional accountants in public practice when providing assurance services.

For Annex 1 of the Code, please refer directly to the full IFAC [International Code of Ethics for Professional Accountants](#).

Glossary

The glossary contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. The glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.

Section structure

The Code contains sections which address specific topics. Some sections contain subsections, dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:

- **Introduction** – Sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- **Requirements** – Establish general and specific obligations with respect to the subject matter addressed.
- **Application material** – Provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to use the Code

The fundamental principles, independence and conceptual framework

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 requires you to comply with these fundamental principles of ethics. The Code also requires you to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires exercising professional judgment, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.

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

- **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 objectively by actual or perceived pressure or influence.

The conceptual framework recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organisation might affect the identification of threats. Those conditions, policies and procedures might also be a relevant factor in your evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires you to address those threats. Applying safeguards is one way that threats might be reduced. Safeguards are actions you take individually or in combination that effectively reduce threats to an acceptable level.

Complying with the Code requires knowing, understanding and applying:

- All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 200, 300, 400 and 900 as applicable.
- All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled “General” and “All Audit Clients” together with additional specific provisions, including those set out under the subheadings titled “Audit Clients that are not Public Interest Entities” or “Audit Clients that are Public Interest Entities”.
- All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

Requirements and application material

Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

Requirements

Requirements are designated with the letter “R” and, in most cases, include the word “shall”. The word “shall” in the Code imposes an obligation on you or your firm to comply with the specific provision in which “shall” has been used.

In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter “R” but uses “may” or conditional wording.

When the word “may” is used in the Code, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

When the word “might” is used in the Code, it denotes the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

Application material

In addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help you to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. Application material is designated with the letter “A”.

Where application material includes lists of examples, these lists are not intended to be exhaustive.

Part 1

Complying with the code, fundamental principles and conceptual framework

100	Complying with the Code	09
110	The fundamental principles	09
	Subsection 111 – Integrity	10
	Subsection 112 – Objectivity	10
	Subsection 113 – Professional competence and due care	10
	Subsection 114 – Confidentiality	11
	Subsection 115 – Professional behaviour	12
120	The conceptual framework	12

Section 100

Complying with the Code

General

100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organisation. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.

100.2 A1 Application material, designated with the letter "A", provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including the application of the conceptual framework.

R100.3 A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

100.3 A1 The principle of professional behaviour requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

100.3 A2 A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

Breaches of the Code

R100.4 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of International Independence Standards. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.4 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

Section 110

The fundamental principles

General

110.1 A1 There are five fundamental principles of ethics for professional accountants:

- (a) Integrity – to be straightforward and honest in all professional and business relationships
- (b) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (c) Professional competence and due care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (ii) 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.
- (e) Professional behaviour – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

R110.2 A professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organisation.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal Counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made, and the rationale for those decisions.

Section 111

Integrity

R111.1 A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity implies fair dealing and truthfulness.

R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

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

111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

R111.3 When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

Section 112

Objectivity

R112.1 A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.

R112.2 A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Section 113

Professional competence and due care

R113.1 A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and;
- (b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organisations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining 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.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

R113.3 Where appropriate, a professional accountant shall make clients, the employing organisation, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

Section 114 Confidentiality

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm or employing organisation;
- (c) Maintain confidentiality of information disclosed by a prospective client or employing organisation;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organisation without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and;
- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

144.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organisation to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorised by the client or the employing organisation; 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 professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organisation consents to the disclosure of information by the professional accountant.
- Whether all of the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

- R114.2** A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organisation. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

Section 115

Professional behaviour

- R115.1** A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.
- 115.1 A1** Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.
- R115.2** When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:
- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
 - (b) Disparaging references or unsubstantiated comparisons to the work of others.
- 115.2 A1** If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

Section 120

The conceptual framework

Introduction

- 120.1** The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2** The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and application material

General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1** Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – Professional Accountants in Business (including CGMA designation holders)
 - (b) Part 3 – Professional Accountants in Public Practice; and
 - (c) International Independence Standards, as follows:
 - (i) Part 4A – Independence for Audit and Review Engagements; and
 - (ii) Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.

R120.4 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

R120.5 When applying the conceptual framework, the professional accountant shall:

- (a) Exercise professional judgment;
- (b) Remain alert for new information and to changes in facts and circumstances; and
- (c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

Exercise of professional judgment

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment.

120.5 A3 In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The information provides a reasonable basis on which to reach a conclusion.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.

- There might be other reasonable conclusions that could be reached from the available information.

Reasonable and informed third party

120.5 A4 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Identifying threats

R120.6 The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organisation that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgment or behaviour;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant’s firm or employing organisation, on which the accountant will rely when forming a judgment as part of the performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client’s or employing organisation’s position to the point that the accountant’s objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organisation, 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 accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating threats

R120.7 When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

Acceptable level

120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Factors relevant in evaluating the level of threats

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of new information or changes in facts and circumstances

R120.9 If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the accountant’s conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing threats

R120.10 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of significant judgment made and overall conclusions reached

R120.11 The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Considerations for audits, reviews and other assurance engagements

Independence

120.12 A1 Professional accountants in public practice are required by International Independence Standards to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised.

120.12 A2 International Independence Standards set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

Professional skepticism

120.13 A1 Under auditing, review and other assurance standards, including those by the IAASB, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.13 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- Integrity requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
 - (a) Being straightforward and honest when raising concerns about a position taken by a client; and
 - (b) Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- Objectivity requires the professional accountant not to compromise professional or business judgment because of bias, conflict of interest or the undue influence of others. For example, the accountant complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

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

- Professional competence and due care requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:

- (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
- (b) Designing and performing appropriate audit procedures; and
- (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

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

Part 2

Professional accountants In business (Including CGMA® designation holders)

200	Applying the conceptual framework – professional accountants in business (including CGMA designation holders)	18
210	Ethical conflicts	21
220	Conflicts of interest	22
230	Inducements including gifts and hospitality	24
240	Preparing and reporting information	27
250	Educational Services	30
260	General standards / professional competence and due care	30
270	Acts discreditable / professional behaviour / confidentiality	34
280	Pressure to breach the rules / fundamental principles	38
290	Responding to non-compliance with laws and regulations (CIMA only)	39

Section 200

Applying the conceptual framework – professional accountants in business (including CGMA designation holders)

Introduction

- 200.1** This Part of the Code applies to “Members” as defined and referred to as:
- (a) Members in business (AICPA) who hold the CGMA credential;
 - (b) All professional accountants in business (CIMA) including those who hold the CGMA credential (or are entitled to do so); and
 - (c) An individual who is a professional accountant in public practice (CIMA) when performing professional activities pursuant to the accountant’s relationship with the accountant’s firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to professional accountants in public practice (CIMA) is set out in paragraphs R120.4, R300.5, and 300.5 A1.
- 200.2** Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of members.
- 200.3** Members might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organisations and third parties might rely. Members may also carry out a range of other activities, including:
- Providing effective financial management and competent advice on a variety of business-related matters. These may include forecasts, estimates, and projections and the assumptions upon which they are based being transparent and credible;
 - Providing robust business case information, supporting decisions and capital allocation; and
 - Providing assessment of effective and sufficient IT controls and procedures as part of implementing or improving financial and non-financial reporting systems.
- 200.4** A member might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organisation, engaged in commerce, industry or service, the public sector, education, the not-for-profit, or regulatory or professional bodies. The legal form of the relationship of the member with the employing organisation has no bearing on the ethical responsibilities placed on the member.

Conceptual framework for members in business

- 200.5** 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. The conceptual framework requires members to be alert for such facts and circumstances.
- 200.6** 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.

Requirements and application material

General

- R200.7** Under the conceptual framework approach, members shall identify, evaluate and address threats to compliance with the rules and fundamental principles. 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.
- 200.7 A1** Members have a responsibility to further the legitimate objectives of the member’s employing organisation. The Code does not seek to hinder members from fulfilling that responsibility, but addresses circumstances in which compliance with the rules and fundamental principles might be compromised.
- 200.7 A2** Members may promote the position of the employing organisation when furthering legitimate goals and objectives of their employing organisation, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.7 A3 The more senior the position of a member, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, members are expected to encourage and promote an ethics-based culture in the organisation. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs;
- Ethics and whistle-blowing policies;
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying threats

R200.8 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 shall 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.

200.8 A1 Threats to compliance with the rules and fundamental principles might be created by a broad range of facts and circumstances. 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”).

200.8 A2 Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the Code. Paragraphs 200.7 A3 – 200.7 A12 of this section define and provide examples, which are not all inclusive, of each of these threat categories.

200.8 A3 **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 organisation. Examples of adverse interest threats include the following:

- (a) A member has charged, or expressed an intention to charge, the employing organisation with violations of law.
- (b) A member or the member’s immediate family or close family has a financial or another relationship with a vendor, customer, competitor, or potential acquisition of the employing organisation.
- (c) A member has sued or expressed an intention to sue the employing organisation or its officers, directors, or employees.

200.7 A4 **Advocacy threat.** The threat that a member will promote an organisation’s interests or position to the point that their 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.

200.8 A4 **Familiarity threat.** The threat that, due to a long or close relationship with a person or an employing organisation, a member will become too sympathetic to their interests or too accepting of the person’s work or organisation’s product or service. Examples of familiarity threats include the following:

- (a) A member uses an immediate family’s or close family’s company as a supplier to the employing organisation.
- (b) A member accepts 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 family is employed as a member’s subordinate.

200.8 A6 Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organisation or persons associated with the employing organisation. Examples of self-interest threats include the following:

- (a) A member's immediate family or close family has a financial interest in the employing organisation.
- (b) A member holds a financial interest (for example, shares or share options) in, or receives a loan or guarantee from, the employing organisation, 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.
- (d) A member being offered a gift or special treatment from a supplier of the employing organisation.

200.8 A7 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 organisation, 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 they 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.

200.8 A7 Undue influence threat (also referred to as "intimidation threat"). The threat that a member will subordinate their judgment to that of an individual associated with the employing organisation 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.

Evaluating threats

R200.9 In evaluating the significance of an identified threat, a member shall determine whether a threat is at an acceptable level.

200.9 A1 Members are encouraged to 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.

200.9 A2 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.

200.9 A3 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.

200.9 A4 Members may 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.

200.9 A5 A member's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:

- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
- Policies and procedures to implement and monitor the quality of employee performance.
- Systems of corporate oversight or other oversight structures and strong internal controls.
- Recruitment procedures emphasizing the importance of employing high calibre competent personnel.
- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and Code of conduct policies.

Addressing threats

R200.10 If, in evaluating the significance of an identified threat, a member concludes that a threat is not at an acceptable level, the member shall address the threats by eliminating them or reducing them to an acceptable level. The member shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

200.10 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.

200.10 A2 Members might consider obtaining legal advice where they believe that unethical behaviour or actions by others have occurred, or will continue to occur, within the employing organisation.

200.10 A3 In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for a member to resign from the employing organisation.

Communicating with those charged with governance

R200.11 When communicating with those charged with governance in accordance with the Code, a member shall determine the appropriate individual(s) within the employing organisation's governance structure with whom to communicate. If the member communicates with a subgroup of those charged with governance, the member shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.11 A1 In determining with whom to communicate, a member might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

200.11 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual of those charged with governance.

R200.12 If a member communicates with individuals who have management responsibilities as well as governance responsibilities, the member shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the member would otherwise communicate.

200.12 A1 In some circumstances, all of those charged with governance are involved in managing the employing organisation, for example, a small business where a single owner manages the organisation and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the member has satisfied the requirement to communicate with those charged with governance.

Section 210

Ethical conflicts

Introduction

R210.1 If an ethical conflict is encountered, a member should take steps to best achieve compliance with the rules, fundamental principles and law.

210.1 A1 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 their employer's confidential information.

210.1 A2 In weighing alternative courses of action, a member might 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.

210.1 A3 A member should be prepared to justify any departures they believe are appropriate in applying the relevant rules, fundamental principles and law.

210.1 A4 If a member is 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.

210.1 A5 Before pursuing a course of action, a member might consult with appropriate persons within the organisation that employs the member.

- 210.1 A6** If a member decides not to consult with appropriate persons within the employing organisation, 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.
- 210.1 A7** If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules or fundamental principles if they remain associated with the matter creating the conflict. Accordingly, the member should consider their continuing relationship with the specific assignment or employer. any decisions made concerning the issue.

Integrity and objectivity

- R210.2** 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 their judgment to others.
- R210.3** Integrity Principle (CIMA): The fundamental principle of integrity imposes an obligation on all members to be straightforward and honest in all professional and business relationships.
- Objectivity Principle (CIMA): The fundamental 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.
- R210.4** In the absence of an interpretation of the Integrity and Objectivity Rule (AICPA) and the Integrity and Objectivity Principles (CIMA) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business” (200.3 – 200.4).
- R210.5** 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 they identified, evaluated and addressed threats to compliance with the rules and fundamental principles.
- 210.5 A1** A member should consider the guidance in Paragraphs R210.1 and 210.1 A1 – 210.1 A7 when addressing ethical conflicts that might 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 220

Conflicts of interest

Conflicts of interest for members in business

- 220.1** Members are required to comply with the rules and fundamental principles and apply the conceptual framework set out in Section 200 to identify, evaluate and address threats.
- 220.2** 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.
- 220.3** 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.
- 220.4** A party may include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.

Requirements and application material

General

- R220.5** A member shall not allow a conflict of interest to compromise professional or business judgment.
- 220.5 A1** The following are examples of situations in which conflicts of interest may arise:
- Serving in a management or governance position for two employing organisations and acquiring confidential information from one employing organisation that could be used by the member to the advantage or disadvantage of the other employing organisation.

- 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 organisation who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the member's employing organisation when the member or their immediate or close family relative could benefit financially from the transaction.
- Serving in a governance capacity or influencing an employing organisation 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 their immediate or close family relative.

Identification of a conflict of interest

R220.6 A member shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the rules and fundamental principles. Such steps shall include identifying:

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

R220.7 A member shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Evaluation of a conflict of interest

220.8 A1 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.

220.8 A2 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 likely the level of the threat is not at an acceptable level.

220.8 A3 If a member concludes that the threat is not at an acceptable level, the member should apply safeguards to reduce the threat to an acceptable level. Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- (a) Restructuring or segregating certain responsibilities and duties.
- (b) Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.
- (c) Consulting with third parties, such as a professional body, legal counsel, or another professional accountant.

220.8 A4 Examples of actions that might eliminate threats created by conflicts of interest include:

- (a) Withdrawing from the decision-making process related to the matter giving rise to the conflict of interest
- (b) Declining to perform or discontinue the professional services that would result in the conflict of interest
- (c) Terminating the relevant relationships or disposing of the relevant interests.

Disclosure of a conflict of interest and consent

220.9 A1 It is generally necessary to:

- (a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organisation affected by a conflict; and
- (b) Obtain consent from the relevant parties for the professional accountant to undertake the professional activity when safeguards are applied to address the threat.

220.9 A2 Consent might be implied by a party's conduct in circumstances where the member has sufficient evidence to conclude that the parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

220.9 A3 If such disclosure or consent is not in writing, the member is encouraged to document:

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

220.9 A4 When addressing a conflict of interest, a member is encouraged to seek guidance from within the employing organisation 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 (270.1 and R210.3). 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.

220.9 A5 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 organisation or financial, business or personal relationships that close relatives or immediate family of the member have with the employing organisation. Guidance on managing such threats is covered by the “Knowing Misrepresentations in the Preparation of Financial Statements or Records”, interpretation (240.3 – 240.4) and the “Subordination of Judgment by a Member”, interpretation (240.11 A1 – A11).

Section 230

Inducements, including gifts and hospitality

Introduction

230.1 Members are required to comply with the rules and fundamental principles and apply the conceptual framework set out in Section 200 to identify, evaluate and address threats.

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

230.3 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 rules and fundamental principles, in particular the “Integrity and Objectivity Rule” and the Integrity and Objectivity principles, may exist.

Requirements and application material

General

230.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual’s behaviour, but not necessarily with the intent to improperly influence that individual’s behaviour. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Inducements prohibited by laws and regulations

R230.5 In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. A member shall obtain an understanding of relevant laws and regulations that may apply to the member’s employer or the customer or vendor, and comply with them when they encounter such circumstances.

Inducements not prohibited by laws and regulations

230.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity fundamental principles.

Inducements with intent to improperly influence behaviour

R230.7 A member shall not offer, or encourage others to offer, any inducement from a customer or vendor of the member’s employer that is made, or which the member considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual, or that violates the policies of the member’s employer or the customer or vendor.

R230.8 A member shall not accept, or encourage others to accept, any inducement from a customer or vendor of the member's employer that is made, or which the member considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual, or that violates the policies of the member's employer or the customer or vendor.

R230.8 A member shall not accept, or encourage others to accept, any inducement from a customer or vendor of the member's employer that is made, or which the member considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual, or that violates the policies of the member's employer or the customer or vendor.

230.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The rules and fundamental principles are appropriate frames of reference for a member in considering what constitutes unethical behaviour on the part of the member and, if necessary by analogy, other individuals.

230.9 A2 A breach of the "Integrity and Objectivity Rule" and the "Integrity Principle" arises when a member offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

230.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgment. Relevant factor to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organisation, such as other customers or vendors.

- The roles and positions of the individuals offering or being offered the inducement.
- Whether the member knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organisation.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of further actions

230.10 A1 If a member becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the "Integrity and Objectivity Rule" and the "Integrity Principle" might still be created even if the requirements in paragraphs R230.7 and R230.8 are met.

230.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management or those charged with governance of the employing organisation of the member or the offeror regarding the offer.
- Amending or terminating the business relationship with the offeror.

Inducements with no intent to improperly influence behaviour

230.11 A1 The requirements and application material set out in the conceptual framework apply when a member has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

230.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

230.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the member has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
 - A member is offered part-time employment by a customer or vendor.
- Familiarity threats
 - A member regularly takes a customer or vendor to sporting events.
- Undue influence (Intimidation) threats
 - A member accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

230.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 230.9 A3 for determining intent.

230.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for any business-related decision involving the counterparty to another individual who has the member has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

230.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management or those charged with governance of the employing organisation of the member or of the counterparty about offering or accepting an inducement.
- Registering the inducement in a log maintained by the employing organisation of the member or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the member with respect to the individual or organisation from which the member accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or close family relatives

R230.12 A member shall remain alert to potential threats to the member's compliance with the rules and fundamental principles, in particular the "Integrity and Objectivity Rule" and the Integrity and Objectivity Principles, created by the offering of an inducement:

- (a) By an immediate or close family relative of the member to a counterparty with whom the member has a professional relationship; or
- (b) To an immediate or close family relative of the member by a counterparty with whom the member has a professional relationship.

230.12 A1 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 behaviour, or obtain confidential information, and undue influence (intimidation) 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 or close family relative to the member.

R230.13 Where the member becomes aware of an inducement being offered to or made by an immediate or close family relative and concludes there is intent to improperly influence the behaviour of the member or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the member shall advise the immediate or close family relative not to offer or accept the inducement.

230.13 A1 The factors set out in paragraph 230.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the member or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The member and the immediate or close family relative;
- (b) The immediate or close family relative and the counterparty; and
- (c) The member and the counterparty.

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

230.13 A2 The application material in paragraph 230.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the member or of the counterparty even if the immediate or close family relative has followed the advice given pursuant to paragraph R230.13.

Application of the conceptual framework for members in business

230.14 A1 Where the member becomes aware of an inducement offered in the circumstances addressed in paragraph R230.12, threats to compliance with the rules and fundamental principles might be created where:

- (a) The immediate or close family relative offers or accepts the inducement contrary to the advice of the member pursuant to paragraph 230.13; or
- (b) The member does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the member or of the counterparty exists.

230.14 A2 The application material in paragraphs 230.11 A1 to 230.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature and closeness of the relationships set out in paragraph 230.13 A1.

Other Considerations

230.15 A1 [CIMA ONLY] If a member encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organisation, the requirements and application material set out in Section 290 apply.

230.15 A2 If a member faces pressure to offer or accept inducements that might create threats to compliance with the rules and fundamental principles, the requirements and application material in Section 280 apply.

Section 240

Preparation and presentation of information

Introduction

240.1 Members at all levels are required to comply with the rules and fundamental principles and apply the conceptual framework set out in Section 200 to identify, evaluate and address threats.

240.2 Preparing or presenting information might create self-interest, familiarity, undue influence or other threats to compliance with one of more the rules and fundamental principles, such as the “Integrity and Objectivity Rule” and the Integrity and Objectivity fundamental principles.

Requirements and application material

Knowing Misrepresentations in the Preparation of Financial Statements or Records

240.3 A1 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 organisation.

240.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

240.3 A3 Information might assist stakeholders in understanding and evaluating aspects of the employing organisation’s state of affairs and in making decisions concerning the organisation. Information may include financial or non-financial or management information that might be made public or used for internal purposes. Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Risk analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

240.3 A4 For the purposes of this section, preparing or presenting information includes recording, maintaining, approving, and reporting information.

R240.4 When preparing or presenting information, a member shall do so in accordance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity fundamental principle, and shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercising professional judgment to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature of business transactions or activities; and
 - (iii) Classify and record information in a timely and proper manner; and
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

240.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

240.4 A2 Threats to compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity fundamental 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 fundamental 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.

Use of discretion in preparing or presenting information

R240.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. A member shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

240.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example omitting or obscuring information relating to financial or operating risk in order to mislead.

R240.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, a member shall exercise professional judgment to identify and consider:

- (a) The purpose for which the information is to be used;
- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

240.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

240.6 A2 A member might also consider clarifying the intended audience, context and purpose of the information to be presented.

Relying on the work of others

R240.7 A member who intends to rely on the work of others, either internal or external to the employing organisation, shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R240.4.

240.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

Addressing information that is or might be misleading

R240.8 When a member knows or has reason to believe that the information with which the member is associated is misleading, the member shall take appropriate actions to seek to resolve the matter.

240.8 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the member’s superior and/ or the appropriate level(s) of management within the member’s employing organisation or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organisation (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

240.8 A2 The member might determine that the employing organisation has not taken appropriate action. If the member continues to have reason to believe that the information is misleading, threats to compliance with the “Integrity and Objectivity Rule” and the fundamental principles would not be at an acceptable level. In such circumstances, the following further actions might be appropriate provided that the member remains alert to the “Acts Discreditable Rule” and fundamental principle of confidentiality:

- Consulting with:
 - A relevant professional body.
 - The internal or external auditor of the employing organisation.
 - Legal Counsel.
- Determining whether any requirements exist to communicate to:
 - Third parties, including users of the information.
 - Regulatory and oversight authorities.

R240.9 If after exhausting all feasible options, the member determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the member shall refuse to be or to remain associated with the information.

240.9 A1 In such circumstances, it might be appropriate for a member to resign from the employing organisation.

Documentation

240.10 A1 The member is encouraged to document:

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the accountant attempted to address the matter(s).

Subordination of judgment

240.11 A1 The “Integrity and Objectivity Rule” and the fundamental principles prohibit a member from knowingly misrepresenting facts or subordinating their judgment when performing professional services for an employer or on a volunteer basis. This interpretation addresses differences of opinion between a member and their supervisor or any other person within the member’s organisation.

240.11 A2 Self-interest, familiarity, and undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity fundamental principles may exist when a member and

their supervisor or any other person within the member’s organisation 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.

240.11 A3 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.

240.11 A4 In evaluating threats, a 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.

240.11 A5 If the member concludes that threats are at an acceptable level, the member should discuss their conclusions with the person taking the position. No further action would be needed under this interpretation.

240.11 A6 If the member concludes that the position results in a material misrepresentation of fact of a violation of applicable laws or regulations, then threats would not be at an acceptable level. In such circumstances, the member should discuss their concerns with the supervisor.

240.11 A7 If the difference of opinion is not resolved after discussing the concerns with the supervisor, the member should discuss their concerns with the appropriate higher level(s) of management with the member’s organisation (for example, the supervisor’s immediate superior, senior management, and those charged with governance).

240.11 A8 If after discussing the concerns with the supervisor and appropriate higher level(s) of management within the member’s organisation, the member concludes that appropriate action was not taken, then the member might consider, in no specific order, the following safeguards to reduce threats to the member’s compliance with the “Integrity and Objectivity Rule” and the Integrity and Objectivity fundamental principles to an acceptable level:

- Determine whether the organisation’s internal policies and procedures have any additional requirements for reporting differences of opinion.

- Determine whether the member is responsible for communicating to third parties, such as regulatory authorities or the organisation's (former organisation's) external accountant. In considering such communications, the member should be cognizant of their obligations under Section 270.
- Consult with legal counsel regarding the member's responsibilities.
- Document the member's 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.

240.11 A9 If the member concludes that no safeguards can reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then they should consider the continuing relationship with the member's organisation and take appropriate steps to eliminate their exposure to subordination of judgment.

240.11 A10 Nothing in this interpretation precludes a member from resigning from the organisation 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.

240.11 A11 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 their judgment.

Obligation of a member to their employer's external accountant

240.12 A1 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 of 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 250

Educational services

250.1 A1 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 260

General standards / professional competence and due care

Introduction

R260.1 Members are required to comply with the General Standards Rule (AICPA) and the fundamental principle of Professional Competence and Due Care (CIMA) and apply the conceptual framework set out in Section 200 to identify, evaluate and address threats.

Requirements and application material

General

R260.2 A member shall not intentionally mislead an employing organisation as to the level of expertise or experience possessed.

General standards rule (AICPA)

R260.3 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)

- R260.4** A member shall comply with the fundamental principle of Professional Competence and Due Care, which imposes the following obligations on all members:
- (a) To attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) To act diligently and in accordance with applicable technical and professional standards.

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

- 260.5 A1** 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” (200.3 – 200.4).
- 260.5 A2** 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.
- 260.5 A3** A member should consider the guidance in the “Ethical Conflicts” interpretation (210.1) 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

- 260.6 A4** 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.

- 260.6 A5** 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.

- 260.6 A6** 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.

- 260.6 A7** 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.

- 260.6 A8** 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 organisation;
 - Independent experts; or
 - A relevant professional body.

- 260.6 A9** 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

R260.7 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".

260.7 A1 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)

R260.8 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)

R260.9 A member shall comply with the fundamental principle of Professional Competence and Due Care, which imposes the following obligations on all members:

- (a) To attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) To act diligently and in accordance with applicable technical and professional standards.

Interpretations under the compliance with standards rule and the professional competence and due care principle

Application of the conceptual framework for members in business and ethical conflicts

260.10 A1 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).

260.10 A2 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.

260.10 A3 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)

R260.11 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 they are 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)

R260.12 A member shall comply with the fundamental principle of Professional Competence and Due Care, which imposes the following obligations on all members:

- (a) To attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) To act diligently and in accordance with applicable technical and professional standards.

Interpretations under the accounting principles rule and the professional competence and due care principles

Application of the conceptual framework for members in business and ethical conflicts

- 260.13 A1** 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” (200.3 – 200.4).
- 260.13 A2** 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.
- 260.13 A3** A member should consider the guidance in the “Ethical Conflicts” interpretation (210.1) 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)

- R260.14** 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)

- R260.15** A member of CIMA who has responsibility for the preparation or approval of the general purpose financial statements of an employing organisation 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)

- 260.16 A1** The “Accounting Principles Rule” authorises 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 Standards Board (IASB) as an accounting body for purposes of establishing international financial accounting and reporting principles.
- 260.16 A2** 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”.
- 260.16 A3** 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)

260.17 A1 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” recognises 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.

260.17 A2 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.

260.17 A3 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.

260.17 A4 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)

260.18 A1 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.

260.18 A2 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”.

260.18 A3 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.

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 270

Acts discreditable / professional behaviour / confidentiality

Introduction

270.1 Members are required to comply with the Acts Discreditable Rule (AICPA) and the fundamental principles of Professional Behaviour and Confidentiality (CIMA), and apply the conceptual framework set out in Section 200 to identify, evaluate and address threats.

Requirements and application material

General

Acts discreditable rule (AICPA)

R270.2 A member shall not commit an act discreditable to the profession.

Professional behaviour principle (CIMA)

R270.3 A member shall comply with the principle of professional behaviour, which requires a member to comply with relevant laws and regulations and avoid any conduct that the member knows or should know might discredit the profession. A member shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

Confidentiality principle (CIMA)

- R270.4** A member shall comply with the principle of confidentiality, which requires a member to respect the confidentiality of information acquired as a result of professional and business relationships. A member shall:
- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family relative;
 - (b) Maintain confidentiality of information within the firm or employing organisation;
 - (c) Maintain confidentiality of information disclosed by a prospective client or employing organisation;
 - (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organisation without proper and specific authority, unless there is a legal or professional duty or right to disclose;
 - (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
 - (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
 - (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

Interpretations under the acts discreditable rule and professional behaviour and confidentiality principles

Application of the conceptual framework for members in business and ethical conflicts

- 270.5 A1** In the absence of an interpretation of the "Acts Discreditable Rule" and the Professional Behaviour and Confidentiality principles that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business" (200.3 – 200.4).
- 270.5 A2** A member would be considered in violation of the "Acts Discreditable Rule" and the Professional Behaviour and Confidentiality principles if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

- 270.5 A3** 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

- 270.6 A1** A member would be presumed to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" and the "Professional Behaviour 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

- 270.7 A1** 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 authorisation shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" and the "Professional Behaviour Principle".

Failure to file a tax return or pay a tax liability

- 270.8 A1** 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 Behaviour Principle".

Negligence in the preparation of financial statements or records

- 270.9 A1 A member would be considered in violation of the “Acts Discreditable Rule” and the “Professional Behaviour Principle” if the member, by virtue of their 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

- 270.10 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.
- R270.11 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 shall follow the requirements of such organisations in addition to the applicable financial reporting framework.
- 270.11 A1 A member’s material departure from such requirements would be considered a violation of the “Acts Discreditable Rule” and the “Professional Behaviour 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

- 270.12 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 organisation 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.

- R270.13 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.

- 270.13 A1 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 Behaviour Principle”.

Confidential information obtained from employment or volunteer activities

- R270.14 A member shall maintain the confidentiality of their 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).
- 270.14 A1 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organisation 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.
- 270.14 A2 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family relative. The member should also take reasonable steps to ensure that staff under their control or others within the employing organisation and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

270.14 A3 When a member changes employment, a member should not use confidential employer information acquired as a result of a prior employment relationship to their 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.

270.14 A4 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 organisation for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.

270.14 A5 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 authorised 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.

270.14 A6 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.

270.14 A7 A member may wish to consult with legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.

270.14 A8 Refer to the "Subordination of Judgment" interpretation (240.11) for additional guidance.

False, misleading, or deceptive acts in promoting or marketing professional services

R270.15 A member would be in violation of the "Acts Discreditable Rule" and the "Professional Behaviour 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.

270.15 A1 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)

270.16 A1 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.

270.16 A2 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".

Section 280

Pressure to breach the rules / fundamental principles

Introduction

280.1 Members are required to comply with the rules and fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

280.2 Pressure exerted on, or by, a member might create an intimidation or other threat to compliance with one or more of the fundamental principles or the rules, particularly the "Integrity and Objectivity Rule". This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and application material

General

R280.3 A member shall not:

- (a) Allow pressure from others to result in a breach of compliance with the rules, in particularly the "Integrity or Objectivity Rule", or the fundamental principles; or
- (b) Place pressure on others that the member knows, or has reason to believe, would result in the other individuals breaching the rules or the fundamental principles.

280.3 A1 A member may face pressure that could create threats to compliance with the rules, in particularly the "Integrity and Objectivity Rule", and the fundamental principles, for example an undue influence (intimidation) threat, when undertaking professional services. Pressure might be explicit or implicit and might come from:

- Within the employing organisation, for example, from a colleague or superior.
- An external individual or organisation such as a vendor, customer, or lender.
- Internal or external targets and expectations.

280.3 A2 Examples of pressure that might result in threats to compliance with the "Integrity and Objectivity Rule" and the fundamental principles include:

- Pressure related to conflicts of interest:
 - Pressure from a family relative bidding to act as a vendor to the member's employing organisation to select that vendor over another prospective vendor.

See also Section 220, Conflicts of Interest.

- Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial results to meet investor, analyst, or lender expectations.
 - Pressure from elected officials on public sector / government accountants to misrepresent programs or projects to voters.
 - Pressure from colleagues to misstate income, expenditure, or rates of return to bias decision-making on capital projects and acquisitions.
 - Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
 - Pressure to suppress internal audit reports containing adverse findings.

See also Section 240, Preparation and Presentation of Information.

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

See also Section 260, General Standards / Professional Competence and Due Care.

- Pressure related to financial interests:
 - Pressure from superiors, colleagues, or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.
- Pressure related to inducements:
 - Pressure from others, either internal or external to the employing organisation, to offer inducements to influence inappropriately the judgment or decision-making process of an individual or organisation.

- Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 230, Inducements, Including Gifts and Hospitality.

280.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

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

280.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the member to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the “Acts Discreditable Rule” (AICPA) and the fundamental principle of confidentiality (CIMA), might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the member’s superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organisation, including when appropriate, explaining any consequential risks to the organisation, for example with:
 - Higher levels of management.
 - Internal or external auditors.
 - Those charged with governance.
- Disclosing the matter in line with the employing organisation’s policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
 - A colleague, superior, human resources personnel, or another member;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal Counsel.

280.3 A5 An example of an action that might eliminate threats created by pressure is the member’s request for a restructure of, or segregation of, certain responsibilities and duties so that the member is no longer involved with the individual or entity exerting the pressure.

Documentation

280.4 A1 The member is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

Section 290

Responding to non-compliance with laws and regulations (CIMA only)

Introduction

290.1 This Section only applies to CIMA members, including:

- (a) Professional accountants in business (CIMA); and
- (b) An individual who is a professional accountant in public practice (CIMA) when performing professional activities pursuant to the accountant’s relationship with the accountant’s firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to professional accountants in public practice (CIMA) is set out in paragraphs R120.4, R300.5, and 300.5 A1.

This Section does NOT apply to AICPA members

290.2 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

290.3 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

290.4 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation's financial statements; and
- (b) Others laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the professional accountant in relation to non-compliance with laws and regulations

290.5 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:

- (a) To comply with the principles of integrity and professional behaviour;
- (b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

Requirements and application material

General

290.6 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The professional accountant's employing organisation;

- (b) Those charged with governance of the employing organisation;
- (c) Management of the employing organisation; or
- (d) Other individuals working for or under the direction of the employing organisation.

290.6 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

290.6 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees of the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R290.7 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

290.7 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.

290.8 A1 This section applies regardless of the nature of the employing organisation, including whether or not it is a public interest entity.

290.8 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organisation, its stakeholders and the general public.

290.8 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the employing organisation; and
- (b) Non-compliance by parties other than those specified in paragraph 290.6 A1.

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

Responsibilities of the employing organisation's management and those charged with governance

290.9 A1 The employing organisation's management, with the oversight of those charged with governance, is responsible for ensuring that the employing organisation's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The employing organisation;
- (b) An individual charged with governance of the employing organisation;
- (c) A member of management; or
- (d) Other individuals working for or under the direction of the employing organisation.

Responsibilities of all professional accountants

R290.10 If protocols and procedures exist within the professional accountant's employing organisation to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such non-compliance.

290.10 A1 Many employing organisations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistleblowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

R290.11 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or the general public.

Responsibilities of senior professional accountants in business

290.12 A1 Senior professional accountants in business ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organisation. This is because of senior professional accountants' roles, positions and spheres of influence within the employing organisation.

Obtaining an understanding of the matter

R290.13 If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include:

- (a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;
- (b) The application of the relevant laws and regulations to the circumstances; and
- (c) An assessment of the potential consequences to the employing organisation, investors, creditors, employees or the wider public.

290.13 A1 A senior professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court of other appropriate adjudicative body.

290.13 A2 Depending on the nature and significance of the matter, the senior professional accountant might cause, or take appropriate steps to cause, the matter to be investigated internally. The accountant might also consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

Addressing the matter

R290.14 If the senior professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R290.10, discuss the matter with the accountant's immediate superior, if any. If the accountant's immediate superior appears to be involved in the matter, the accountant shall discuss the matter with the next higher level of authority within the employing organisation.

290.14 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.

R290.15 The senior professional accountant shall also take appropriate steps to:

- (a) Have the matter communicated to those charged with governance;
- (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
- (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
- (d) Reduce the risk of re-occurrence; and
- (e) Seek to deter the commission of the non-compliance if it has not yet occurred.

290.15 A1 The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.

290.15 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

R290.16 In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organisation's external auditor, if any, is needed.

290.16 A1 Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

Determining whether further action is needed

R290.17 The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.

290.17 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior professional accountant's superiors, if any, and those charged with governance include whether:

- The response is timely.
- They have taken or authorised appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R290.18 In light of the response of the senior professional accountant's superiors, if any, and those charged with governance, the accountant shall determine if further action is needed in the public interest.

290.18 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the employing organisation.
- Whether the senior professional accountant continues to have confidence in the integrity of the accountant's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organisation, investors, creditors, employees or the general public.

290.18 A2 Examples of circumstances that might cause the senior professional accountant no longer to have confidence in the integrity of the accountant's superiors and those charged with governance include situations where:

- The accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

R290.19 The senior professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

290.19 A1 Further action that the senior professional accountant might take includes:

- Informing the management of the parent entity of the matter if the employing organisation is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirements to do so.
- Resigning from the employing organisation.

290.19 A2 Resigning from the employing organisation is not a substitute for taking other actions that might be needed to achieve the senior professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, resignation might be the only available course of action.

Seeking advice

290.20 A1 As assessment of the matter might involve complex analysis and judgments, the senior professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining whether to disclose the matter to an appropriate authority

290.21 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

290.21 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The employing organisation is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The employing organisation is regulated and the matter is of such significance as to threaten its license to operate.
- The employing organisation is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organisation's securities or pose a systemic risk to the financial markets.
- It is likely that the employing organisation would sell products that are harmful to public health or safety.
- The employing organisation is promoting a scheme to its clients to assist them in evading taxes.

290.21 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.

R290.22 If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1 (d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

Imminent breach

R290.23 In exceptional circumstances, the senior professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organisation, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1 (d) of the Code.

Documentation

290.24 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the accountant's superiors, if any, and those charged with governance and other parties.
- How the accountant's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R290.18.

Responsibilities of professional accountants other than senior professional accountants

R290.25 If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

290.25 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations

greater than that which is required for the accountant's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

290.25 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

R290.26 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall, subject to paragraph R290.10, inform an immediate superior to enable the superior to take appropriate action. If the accountant's immediate superior appears to be involved in the matter, the accountant shall inform the next higher level of authority within the employing organisation.

R290.27 In exceptional circumstances, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the accountant does so pursuant to paragraphs 290.21 A2 and A3, that disclosure is permitted pursuant to paragraph R114.1 (d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions.

Documentation

290.28 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:

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

Part 3

Professional accountants in public practice

300	Applying the conceptual framework – professional accountants in public practice	46
310	Conflicts of interest	49
320	Professional appointments	52
321	Second opinions	54
330	Fees and other types of remuneration	55
340	Inducements, including gifts and hospitality	56
350	Custody of client assets	59
360	Responding to non-compliance with laws and regulations	59

Section 300

Applying the conceptual framework – professional accountants in public practice

Introduction

300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests, and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to professional accountants in public practice are set out in:

- Part 3 – Professional Accountants in Public Practice, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
- International Independence Standards as follows:
 - Part 4A – Independence for Audit and Review Engagements, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
 - Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit or review engagements.

300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

Requirements and application material

General

R300.4 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is

performing professional activities pursuant to the accountant’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 220 apply in these circumstances.
- Preparing or presenting financial information for the accountant’s client or firm. The requirements and application material set out in Section 240 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 230 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 280 apply in these circumstances.

Identifying threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.

- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.
- (b) Self-review Threats
- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
 - A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- (c) Advocacy Threats
- A professional accountant promoting the interests of, or shares in, a client.
 - A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
 - A professional accountant lobbying in favour of legislation on behalf of a client.
- (d) Familiarity Threats
- A professional accountant having a close or immediate family member who is a director or officer of the client.
 - 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.
 - An audit team member having a long association with the audit client.
- (e) Intimidation Threats
- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
 - A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
 - A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
 - A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating threats

- 300.7 A1** The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:
- (a) The client and its operating environment; and
 - (b) The firm and its operating environment.
- 300.7 A2** The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The client and its operating environment

- 300.7 A3** The professional accountant's evaluation of the level of a threat might be impacted by whether the client is:
- (a) An audit client and whether the audit client is a public interest entity;
 - (b) An assurance client that is not an audit client; or
 - (c) A non-assurance client.
- For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.
- 300.7 A4** The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:
- The client requires appropriate individuals 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 facilitate objective choices in tendering non-assurance engagements.
 - The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The firm and its operating environment

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

Consideration of new information or changes in facts and circumstances

300.7 A6 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the professional accountant's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats.

Accordingly, the application of the conceptual framework requires that the professional accountant re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.

- When there is a change in the professional accountant's personal or immediate family relationships.

Addressing threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

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

300.8 A3 The remaining sections of Part 3 and International Independence Standards describe certain threats that might arise during the course of performing professional services and include examples of actions that might address threats.

Appropriate reviewer

300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant.

Communicating with those charged with governance

R300.9 When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, a professional accountant might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or an individual member of those charged with governance.

R300.10 If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

Section 310

Conflicts of interest

Introduction

310.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

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

- (a) A professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or

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

310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a professional accountant provides an audit, review or other assurance service, independence is also required in accordance with International Independence Standards.

Requirements and application material General

R310.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer 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 in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a licence agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant 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 acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict identification

General

- R310.5** Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:
- The nature of the relevant interests and relationships between the parties involved; and
 - The service and its implication for relevant parties.
- 310.5 A1** An effective conflict identification process assists a professional accountant when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example, clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the accountant being able to address threats created by the conflict of interest.
- 310.5 A2** An effective process to identify actual or potential conflicts of interest will take into account factors such 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.
- 310.5 A3** More information on client acceptance is set out in Section 320, Professional Appointments.

Changes in circumstances

- R310.6** A professional accountant shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.
- 310.6 A1** The nature of services, interests and relationships might change during the engagement. This is particularly true when a professional accountant is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the accountant initially might not be involved in a dispute.

Network firms

- R310.7** If the firm is a member of a network, a professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of a network firm.
- 310.7 A1** Factors to consider when identifying interests and relationships involving a network firm include:
- The nature of the professional services provided.
 - The clients served by the network.
 - The geographic locations of all relevant parties.

Threats created by conflicts of interest

- 310.8 A1** In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.
- 310.8 A2** Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorised disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. These measures include:
- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
 - Policies and procedures to limit access to client files.
 - Confidentiality agreements signed by personnel and partners of the firm.
 - Separation of confidential information physically and electronically.
 - Specific and dedicated training and communication.
- 310.8 A3** Examples of actions that might be safeguards to address threats created by a conflict of interest include:
- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
 - Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

Disclosure and consent

General

R310.9 A professional accountant shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

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

310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the professional accountant does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, an accountant might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances 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.

310.9 A3 It is generally necessary:

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

310.9 A4 If such disclosure or consent is not in writing, the professional accountant is encouraged to document:

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

When explicit consent is refused

R310.10 If a professional accountant has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the accountant shall either:

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

Confidentiality

General

R310.11 A professional accountant shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

310.11 A1 Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When disclosure to obtain consent would breach confidentiality

R310.12 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

- 310.12 A1** A breach of confidentiality might arise, for example, when seeking consent to perform:
- A transaction-related service for a client on a hostile takeover of another client of the firm.
 - A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud.

Documentation

- R310.13** In the circumstances set out in paragraph R310.12, the professional accountant shall document:
- (a) The nature of the circumstances, including the role that the accountant is to undertake;
 - (b) The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and
 - (c) Why it is appropriate to accept or continue the engagement.

Section 320

Professional appointments

Introduction

- 320.1** Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 320.2** Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and application material

Client and engagement acceptance

General

- 320.3 A1** Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.

- 320.3 A2** Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

- 320.3 A3** A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform professional services.

- 320.3 A4** Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.

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

- 320.3 A5** Examples of actions that might be safeguards to address a self-interest threat include:
- Assigning sufficient engagement personnel with the necessary competencies.
 - Agreeing on a realistic time frame for the performance of the engagement.
 - Using experts where necessary.

Changes in a professional appointment

General

- R320.4** A professional accountant shall determine whether there are any reasons for not accepting an engagement when the accountant:
- (a) Is asked by a potential client to replace another accountant;
 - (b) Considers tendering for an engagement held by another accountant; or
 - (c) Considers undertaking work that is complementary or additional to that of another accountant.

320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a professional accountant accepts the engagement before knowing all the relevant facts.

320.4 A2 If a professional accountant is asked to undertake work that is complementary or additional to the work of an existing or predecessor accountant, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor accountant will be requested. This contact gives the proposed accountant the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor accountant to provide any known information of which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

Communicating with the existing or predecessor accountant

320.5 A1 A proposed accountant will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor accountant.

R320.6 If unable to communicate with the existing or predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats.

Communicating with the proposed accountant

R320.7 When an existing or predecessor accountant is asked to respond to a communication from a proposed accountant, the existing or predecessor accountant shall:

- (a) Comply with relevant laws and regulations governing the request; and
- (b) Provide any information honestly and unambiguously.

320.7 A1 An existing or predecessor accountant is bound by confidentiality. Whether the existing or predecessor 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:

- (a) Whether the existing or predecessor accountant has permission from the client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

320.7 A2 Circumstances where a professional accountant is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A1 of the Code.

Changes in audit or review appointments

R320.8 In the case of an audit or review of financial statements, a professional accountant shall request the existing or predecessor accountant to provide known information regarding any facts or other information of which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

- (a) If the client consents to the existing or predecessor accountant disclosing any such facts or other information, the existing or predecessor accountant shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the existing or predecessor accountant permission to discuss the client's affairs with the proposed accountant, the existing or predecessor accountant shall disclose this fact to the proposed accountant, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and engagement continuance

R320.9 For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management or balance sheet valuations.

Using the work of an expert

R320.10 When a professional accountant intends to use the work of an expert, the accountant shall determine whether the use is warranted.

320.10 A1 Factors to consider when a professional accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

Section 321

Second opinions

Introduction

321.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

321.2 Providing a second opinion to an entity that is not an existing client might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and application material

General

321.3 A1 A professional accountant might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence.

321.3 A2 A factor that is relevant in evaluating the level of such a self-interest threat is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

321.3 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- With the client's permission, obtaining information from the existing or predecessor accountant.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the existing or predecessor accountant with a copy of the opinion.

When permission to communicate is not provided

R321.4 If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing or predecessor accountant, the accountant shall determine whether the accountant may provide the second opinion sought.

Section 330

Fees and other types of remuneration

General

- 330.1** Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 330.2** The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application material

Level of fees

- 330.3 A1** The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.
- 330.3 A2** A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 330.3 A3** Factors that are relevant in evaluating the level of such a threat include:
- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.4 A4** Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work performed.

Contingent fees

- 330.4 A1** Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.
- 330.4 A2** Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis for determining the fee.
 - Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
 - Quality control policies and procedures.
 - Whether an independent third party is to review the outcome or result of the transaction.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.4 A3** Examples of actions that might be safeguards to address such a self-interest threat include:
- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant.
 - Obtaining an advance written agreement with the client on the basis of remuneration.
- 330.4 A4** Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in International Independence Standards.

Referral fees or commissions

- 330.5 A1** A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee or receives a commission relating to a client. Such referral fees or commissions include, for example:
- A fee paid to another professional accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.

- A fee received for referring a continuing client to another professional accountant or other expert where the existing accountant does not provide the specific professional service required by the client.
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

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

Purchase or Sale of a Firm

330.6 A1 A professional accountant may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

Section 340

Inducements, including gifts and hospitality

Introduction

- 340.1** Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 340.2** Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity, and professional behaviour.
- 340.3** This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and application material

General

340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between professional accountants and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Inducements prohibited by laws and regulations

R340.5 In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The professional accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

Inducements not prohibited by laws and regulations

340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with intent to improperly influence behaviour

R340.7 A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

R340.8 A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

340.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behaviour on the part of the accountant and, if necessary by analogy, other individuals.

340.9 A2 A breach of the fundamental principle of integrity arises when a professional accountant offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organisation, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
- Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of further actions

340.10 A1 If the professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.

340.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the firm or those charged with governance of the client regarding the offer.
- Amending or terminating the business relationship with the client.

Inducements with no intent to improperly influence behaviour

340.11 A1 The requirements and application material set out in the conceptual framework apply when a professional accountant has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the professional accountant has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
 - A professional accountant is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
 - A professional accountant regularly takes an existing or prospective client to sporting events.
- Intimidation threats
 - A professional accountant accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 340.9 A3 for determining intent.

340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

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

340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the professional accountant with respect to the client from which the accountant accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or close family relatives

R340.12 A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the accountant to an existing or prospective client of the accountant; or
- (b) To an immediate or close family member of the accountant by an existing or prospective client of the accountant.

R340.13 Where the professional accountant becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the accountant or of an existing or prospective client of the accountant, or considers a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

340.13 A1 The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the professional accountant or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The accountant and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The accountant and the existing or prospective client.

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

340.13 A2 The application material in paragraph 340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the professional accountant, or of the existing or prospective client even if the immediate or close family member has followed the advice given pursuant to paragraph R340.13.

Application of the conceptual framework

340.14 A1 Where the professional accountant becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the rules and fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the accountant pursuant to paragraph R340.13; or
- (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the accountant or of the existing or prospective client exists.

340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

Other considerations

340.15 A1 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.

340.15 A2 If a firm, network firm or an audit team member is being offered gifts or hospitality from an audit client, the requirement and application material set out in Section 420 apply.

340.15 A3 If a firm, network firm or an audit team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

Section 350

Custody of client assets

Introduction

350.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and application material

Before taking custody

R350.3 A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

R350.4 As part of client and engagement acceptance procedures related to assuming custody of client money or assets, a professional accountant shall:

- (a) Make inquiries about the source of the assets; and

- (b) Consider related legal and regulatory obligations.

350.4 A1 Inquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 360 would apply.

After taking custody

R350.5 A professional accountant entrusted with money or other assets belonging to others shall:

- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
- (b) Keep the assets separately from personal or firm assets;
- (c) Use the assets only for the purpose for which they are intended; and
- (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

Section 360

Responding to non-compliance with laws and regulations

Introduction

360.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

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

- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and

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

Objectives of the professional accountant in relation to non-compliance with laws and regulations

- 360.4** A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behaviour;
 - (b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and application material

General

- 360.5 A1** Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A client;
 - (b) Those charged with governance of a client;
 - (c) Management of a client; or
 - (d) Other individuals working for or under the direction of a client.
- 360.5 A2** Examples of laws and regulations which this section addresses include those that deal with:
- Fraud, corruption and bribery.
 - Money laundering, terrorist financing and proceeds of crime.
 - Securities markets and trading.
 - Banking and other financial products and services.

- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees of the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R360.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

360.7 A1 This section applies regardless of the nature of the client, whether or not it is a public interest entity.

360.7 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

- 360.7 A3** This section does not address:
- (a) Personal misconduct unrelated to the business activities of the client; and
 - (b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where a professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.

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

Responsibilities of management and those charged with governance

- 360.8 A1** Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:
- (a) The client;
 - (b) An individual charged with governance of the entity;
 - (c) A member of management; or
 - (d) Other individuals working for or under the direction of the client.

Responsibilities of all professional accountants

- R360.9** Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Audits of financial statements

Obtaining an understanding of the matter

- R360.10** If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

- 360.10 A1** The professional accountant might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.

- 360.10 A2** The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

- 360.10 A3** Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

- R360.11** If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

- 360.11 A1** The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

- 360.11 A2** The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

- 360.11 A3** The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

360.11 A4 The professional accountant might also consider discussing the matter with internal auditors where applicable.

R360.12 If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the accountant shall discuss the matter with those charged with governance.

Addressing the matter

R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:

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

R360.14 The professional accountant shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice.

R360.15 The professional accountant shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under auditing standards, including those relating to:
 - Identifying and responding to non-compliance, including fraud.
 - Communicating with those charged with governance.
 - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with respect to groups

R360.16 Where a professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The accountant is, for purposes of an audit of the group financial statements, requested by the group engagement team to perform work on financial information related to the component; or
- (b) The accountant is engaged to perform an audit of the component's financial statements for purposes other than the group audit, for example, a statutory audit.

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

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the professional accountant's firm or network.

R360.17 Where the group engagement partner become aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17 (a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor.

360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing work at the components.

Determining whether further action is needed

R360.19 A1 The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.

- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R360.20 In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.

360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

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

360.20 A2 Examples of circumstances that might cause the professional accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

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

R360.21 The professional accountant shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.

360.21 A1 Further action that the senior professional accountant might take includes:

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

Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant. In such circumstances, withdrawal might be the only available course of action.

R360.22 Where the professional accountant has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the accountant shall, on request by the proposed accountant pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed accountant. The predecessor accountant shall do so, even in the circumstances addressed in paragraph R320.8 (b) where the client fails or refuses to grant the predecessor accountant permission to discuss the client's affairs with the proposed accountant, unless prohibited by law or regulation.

360.22 A1 The facts and other information to be provided are those that, in the predecessor accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the audit appointment. Section 320 addresses communications from proposed accountants.

R360.23 If the proposed accountant is unable to communicate with the predecessor accountant, the proposed accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

360.24 A1 As assessment of the matter might involve complex analysis and judgments, the senior professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining whether to disclose the matter to an appropriate authority

360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.
- The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- It is likely that the entity would sell products that are harmful to public health or safety.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

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

- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.

R360.26 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1 (d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

Imminent breach

R360.27 In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organisation, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1 (d) of the Code.

Documentation

R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing standards. ISAs, for example, require a professional accountant performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional services other than audits of financial statements

Obtaining an understanding of the matter and addressing it with management and those charged with governance

R360.29 If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

360.29 A1 The professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.29 A2 Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R360.30 If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management. If the accountant has access to those charged with governance, the accountant shall also discuss the matter with them where appropriate.

360.30 A1 The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the matter to the entity's external auditor

R360.31 If the professional accountant is performing a non-audit service for:

- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm,

the accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.32 If the professional accountant is performing a non-audit service for:

- (a) An audit client of a network firm; or
- (b) A component of an audit client of a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols and procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.33 If the professional accountant is performing a non-audit service for a client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

Relevant factors to consider

360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

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

Purpose of communication

360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions in this section.

Considering whether further action is needed

R360.36 The professional accountant shall also consider whether further action is needed in the public interest.

360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

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

360.36 A2 Further action by the professional accountant might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

R360.37 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1 (d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter.

Imminent breach

R360.38 In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph 114.1 (d) of the Code.

Seeking advice

360.39 A1 The professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to document:

- The matter.
- The results of discussions with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.36.

Glossary

Glossary (Parts 1, 3, 4a and 4b)

In Parts 1 and 3 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 2 of the Code.

Acceptable level	A level at which a professional accountant using the reasonable and informed third party would likely conclude that the accountant complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Appropriate reviewer	<p>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant.</p> <p>This term is described in paragraph 300.8 A4.</p>
Assurance client	<p>The responsible party that is the person (or persons) who:</p> <ul style="list-style-type: none">(a) In a direct reporting engagement, is responsible for the subject matter; or(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.
Assurance engagement	<p>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.</p> <p>(For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board. The International Framework for Assurance Engagements describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply).</p>
Assurance team	<ul style="list-style-type: none">(a) All members of the engagement team for the assurance engagement;(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:<ul style="list-style-type: none">(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;(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and(iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Audit	In Part 4A, the term “audit” applies equally to “review”.
Audit client	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control (See also paragraph R400.20).</p> <p>In Part 4A, the term “audit client” applies equally to “review client”.</p>
Audit engagement	<p>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.</p> <p>In Part 4A, the term “audit engagement” applies equally to “review engagement”.</p>
Audit report	In Part 4A, the term “audit report” applies equally to “review report”.
Audit team	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <ul style="list-style-type: none"> (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); (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 <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p>In Part 4A, the term “audit team” applies equally to “review team”.</p>
Close family	A parent, child or sibling who is not an immediate family member. (See also definition of “immediate family”)
Conceptual framework	This term is described in Section 120.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period	This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.
Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none"> (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (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.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which may vary from jurisdiction to jurisdiction.

Eligible audit engagement	This term is described in paragraph 800.2 for the purposes of Section 800.
Eligible assurance engagement	This term is described in paragraph 990.2 for the purposes of Section 990.
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
Engagement period (Assurance engagements other than audit and review engagements)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or a network firm. 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 ISA 610 (Revised 2013) Using the Work of Internal Auditors. ²
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

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.

Firm	<p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties, through ownership, management or other means.</p> <p>Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.</p>
Fundamental principles	<p>This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:</p> <p>Integrity R111.1</p> <p>Objectivity R112.1</p> <p>Professional competence and due care R113.1</p> <p>Confidentiality R114.1</p> <p>Professional behaviour R115.1</p>
Historical financial information	<p>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.</p>
Immediate family	<p>A spouse (or equivalent) or dependent.</p>
Independence	<p>Independence is:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s, or a member of the audit or assurance team’s, integrity, objectivity or professional skepticism has been compromised.</p> <p>As set out in paragraphs 400.5 and 900.4, references to an individual or firm being “independent” mean that the individual or firm has complied with Parts 4A and 4B, as applicable.</p>
Indirect financial interest	<p>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.</p>
Inducement	<p>An object, situation, or action that is used as a means to influence another individual’s behaviour, but not necessarily with the intent to improperly influence that individual’s behaviour.</p> <p>Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business and Members in Business), or between professional accountants in public practice, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</p> <ul style="list-style-type: none"> • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment or other commercial opportunities. • Preferential treatment, rights or privileges.

Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.
May	This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception, to a requirement. It is not used to denote possibility.
Might	This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.
Network	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.
Network firm	A firm or entity that belongs to a network. For further information, see paragraphs 400.50 A1 to 400.54 A1.
Non-compliance with laws and regulations	Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties: (a) A client; (b) Those charged with governance of a client; (c) Management of a client; or (d) Other individuals working for or under the direction of a client This term is described in paragraph 360.5 A1.
Office	A distinct sub-group, whether organised on geographical or practice lines.
Predecessor accountant	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.
Professional accountant	An individual who is a member of an IFAC member body. In Part 1, the term "professional accountant" refers to individual professional accountants in business and to professional accountants in public practice and their firms. In Parts 3, 4A and 4B, the term "professional accountant" refers to professional accountants in public practice and their firms.
Professional accountant in business	A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not for profit sector, or in regulatory bodies or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p>The term “professional accountant in public practice” is also used to refer to a firm of professional accountants in public practice.</p>
Professional activity	<p>An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.</p>
Professional services	<p>Professional activities performed for clients.</p>
Proposed accountant	<p>A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).</p>
Public interest entity	<p>(a) A listed entity; and</p> <p>(b) An entity:</p> <ul style="list-style-type: none"> (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. <p>Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.</p>
Reasonable and informed third party	<p>The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner.</p> <p>The terms are described in paragraph R120.5 A4.</p>
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client 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.
Review client	<p>An entity in respect of which a firm conducts a review engagement.</p>

Review engagement	<p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review 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 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);</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 review engagement.</p>
Safeguards	<p>Safeguards are actions, individually or in combination that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</p> <p>This term is described in paragraph 120.10 A2.</p>
Substantial harm	<p>This term is described in paragraph 360.</p>
Special purpose financial statements	<p>Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</p>
Those charged with governance	<p>The person(s) or organisation(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.</p> <p>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.</p>
Threats	<p>This term is described in paragraph 120.6 A3 and includes the following categories:</p> <p>Self-interest 120.6 A3(a)</p> <p>Self-review 120.6 A3(b)</p> <p>Advocacy 120.6 A3(c)</p> <p>Familiarity 120.6 A3(d)</p> <p>Intimidation 120.6 A3(e)</p>
Time-on period	<p>This term is described in paragraph R540.5</p>

Glossary (Part 2)

In Part 2 of the CIMA Code of Ethics for Professional Accountants, the following expressions have the following meanings assigned to them:

Acceptable level	A level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.
Client	<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> <ul style="list-style-type: none">(a) Person or entity engaged in public practice.(b) Federal, state, and local government or component unit thereof, provided that the member performing professional services with respect to the entity is<ul style="list-style-type: none">(i) directly elected by voters of the government or component unit thereof with respect to which professional services are performed;(ii) an individual who is (1) appointed by a legislative body and (2) subject to removal by a legislative body; or(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.
Close relative	A parent, sibling, or nondependent child.
Council	The AICPA Council.
Employing organisation	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.
Financial interest	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.
Financial statements	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.
Fundamental principles	The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
Immediate family	A spouse, spousal equivalent, or dependent (regardless of whether the dependent is related).

Inducement	<p>An object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.</p> <p>Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business and Members in Business), or between professional accountants in public practice, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</p> <ul style="list-style-type: none"> • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment or other commercial opportunities. • Preferential treatment, rights or privileges.
Institute	The AICPA or CIMA.
Interpretation	Pronouncements issued by the AICPA and CIMA to provide guidelines concerning the scope and application of the rules of conduct and fundamental principles.
Member	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).
Member(s) in business or professional accountant(s) in business	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.
Professional services	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.
Public interest entity(ies)	Public interest entities are (a) all listed entities, including entities whose shares, stock, or debt are quoted or listed on a recognised stock exchange or marketed under the regulations of a recognised 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.
Public practice	Consists of the performance of professional services for a client by a member or member's firm.
Rules	The AICPA Code of Professional Conduct.

Safeguards	Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.
Those charged with governance	<p>The person(s) or organisation(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).</p> <p>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.</p>
Threat(s)	Relationships or circumstances that could compromise a member's compliance with the rules or fundamental principles.

Notes



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
W. cimaglobal.com

© 2019 Association of International Certified
Professional Accountants. All rights reserved.
1908-05925