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Exposure Draft

Code of Ethics for the Members of the Institute
(Including Independence Standards)

Cost Auditing and Assurance Standards Board

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

February, 2025

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Code of Ethics for the Members of the Institute
(Including Independence Standards)

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GUIDE TO THE CODE

Introduction

1. The *Code of Ethics* sets out fundamental principles of ethics for the members of the Institute i.e. Cost and Management Accountants (CMAs), reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behavior expected of a CMA. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

2. The Code provides a conceptual framework that CMAs are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help CMAs apply the conceptual framework to those topics.

3. In the case of audits, reviews and other assurance engagements, the Code sets out *Independence Standards,* established by the application of the conceptual framework to threats to independence in relation to these engagements.

Structure of the Code

4. The Code contains the following material:

- Part 1 – '*Complying with the Code, Fundamental Principles and Conceptual Framework*', which includes the fundamental principles and the conceptual framework and is applicable to all CMAs.
- Part 2 – '*CMAs in Business*', which sets out additional material that applies to CMAs in business when performing professional activities. CMAs in business include CMAs employed, engaged or contracted in an executive or non-executive capacity in, for example:
    - Commerce, industry or service.
    - Public Sector.
    - Education.
    - Not-for-profit sector.
    - Regulatory or professional bodies.

  Part 2 is also applicable to individuals who are *CMAs in Practice* when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.
- Part 3 – '*CMAs in Practice*', which sets out additional material that applies to CMAs in practice when providing professional services.
- *Independence Standards*, which sets out additional material that applies to CMAs in practice when providing assurance services, as follows:
    - Part 4A – *Independence for Audit and Review Engagements*, which

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applies when performing audit or review engagements.

- Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.

- *Glossary,* which 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.

5. 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 (R) – establish general and specific obligations with respect to the subject matter addressed.

- Application material (A) – 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

6. The Code requires CMAs to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires having an inquiring mind, exercising professional judgment, and using the reasonable and informed third party test.

7. The conceptual framework recognizes that the existence of conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the CMA's evaluation of whether a threat is at an acceptable level. When threats are not at an acceptable level, the conceptual framework requires the CMA to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the CMA takes that effectively reduce threats to an acceptable level.

8. In addition, the Code requires CMAs to be independent when performing audit, review and other assurance engagements. The conceptual framework applies in

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the same way to identifying, evaluating and addressing threats to independence as to threats to compliance with the fundamental principles.

9. 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 of the Code, 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

10. 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

11. 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 a CMA or firm to comply with the specific provision in which "shall" has been used.

12. 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.

13. 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.

14. 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

15. 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 a CMA 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

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proper application of the requirements of the Code, including application of the conceptual framework. Application material is designated with the letter "A."

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

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PART 1

COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100 - COMPLYING WITH THE CODE

Introduction

100.1 A distinguishing mark of the cost and management accountancy profession is its acceptance of the responsibility to act in the public interest.

100.2 Confidence in the cost and management accountancy profession is a reason why businesses, governments and other organizations involve Cost and Management Accountants (CMAs) in a broad range of areas, including cost audit, internal audit, valuation, financial and corporate reporting, assurance and other professional activities. CMAs understand and acknowledge that such confidence is based on the skills and values that they bring to the professional activities they undertake, including:

(a) Adherence to ethical principles and professional standards;
(b) Use of business acumen;
(c) Application of expertise on technical and other matters; and
(d) Exercise of professional judgment.

The application of these skills and values enables CMAs to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behavior expected of the members of ICMAI i.e. CMAs. The Code may also be used or adopted by those responsible for setting ethics standards for CMAs in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

100.4 The Code establishes five fundamental principles to be complied with by all the CMAs. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that CMAs might encounter, whether in business or in public practice.

Requirements and Application Material

100.5 A1 The requirements in the Code, designated with the letter "R," and appearing in **bold letters**, impose obligations.

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100.5 A2 Application material, designated with the letter "A," and appearing in normal letters, 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 CMA 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.

R100.6 A CMA shall comply with the Code.

100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable CMAs to meet their responsibility to act in the public interest.

100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.

100.6 A3 Compliance with the requirements of the Code does not mean that CMAs will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which a CMA believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the CMA is encouraged to consult with the Institute.

100.6 A4 In acting in the public interest, a CMA considers not only the preferences or requirements of an individual client or employing organization, but also the interests of other stakeholders when performing professional activities.

R100.7 If there are circumstances where laws or regulations preclude a CMA from complying with certain parts of the Code, those laws and regulations prevail, and the CMA shall comply with all other parts of the Code.

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

Breaches of the Code

R100.8 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 of the Code address a breach of *Independence Standards*. A CMA who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on his ability to comply with the fundamental principles. The CMA shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

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(b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, the Institute and / or a regulatory authority.

SECTION 110 - THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for CMAs:

(a) Integrity – to be straightforward and honest in all professional and business relationships.

(b) Objectivity – to exercise professional or business judgment without being compromised by:

(i) Bias;
(ii) Conflict of interest; or
(iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

(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 organization 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 Behavior – to:

(i) Comply with relevant laws and regulations;
(ii) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and
(iii) Avoid any conduct that the CMA knows or should know might discredit the profession.

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

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

110.2 A2 A CMA might face a situation in which complying with one fundamental

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principle conflicts with complying with one or more other fundamental principles. In such a situation, the CMA might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Management of the Organisation.
- The Institute.

However, such consultation does not relieve the CMA 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 CMA is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

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

111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

111.1 A2 Acting appropriately involves:

(a) Standing one's ground when confronted by dilemmas and difficult situations; or
(b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

R111.2 A CMA shall not knowingly be associated with reports, returns, communications or other information where he 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 CMA provides a modified report in respect of such a report, return, communication or other information, he is not in breach of paragraph R111.2 of the Code.

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

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SUBSECTION 112 – OBJECTIVITY

R112.1 A CMA shall comply with the principle of objectivity, which requires him to exercise professional or business judgment without being compromised by:

(a) Bias;
(b) Conflict of interest; or
(c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

R112.2 A CMA shall not undertake a professional activity if a circumstance or relationship unduly influences his professional judgment regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

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

(a) Attain and maintain professional knowledge and skills at the level required to ensure that a client or employing organization 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 organizations with professional competence involves the exercise of sound judgment in applying professional knowledge and skills.

113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organizational skills facilitate the CMA's interaction with entities and individuals with whom the he interacts.

113.1 A3 Maintaining professional competence requires a CMA to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the CMA. Continuing professional development enables a CMA to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A4 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 CMA shall take reasonable steps to ensure that those working in a professional capacity under the CMA's authority have appropriate

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training and supervision.

R113.3 **Where appropriate, a CMA shall make clients, the employing organization, or other users of the CMA's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.**

SUBSECTION 114 – CONFIDENTIALITY

R114.1 **A CMA shall comply with the principle of confidentiality, which requires him to respect the confidentiality of information acquired in the course of professional and business relationships. A CMA 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 organization;

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization; and

(d) Take reasonable steps to ensure that personnel under his control, and individuals from whom advice and assistance are obtained, comply with his duty of confidentiality.

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the CMA taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

R114.2 **Subject to paragraph R114.3 of the Code, a CMA shall not:**

(a) Disclose confidential information acquired in the course of professional and business relationships;

(b) Use confidential information acquired in the course of professional and business relationships for the advantage of the CMA, the firm, the employing organization or a third party;

(c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and

(d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

R114.3 **As an exception to paragraph R114.2 of the Code, a CMA may disclose or use confidential information where:**

(a) There is a legal or professional duty or right to do so; or

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(b) This is authorized by the client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the CMA's client or employing organization to the CMA in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where CMAs might be required or have the duty or right to disclose confidential information:

(a) Disclosure is required by law or regulation, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:

(i) To comply with the quality review of the Institute;

(ii) To respond to an inquiry or investigation by the Institute or regulatory body;

(iii) To protect the professional interests of a CMA in legal proceedings; or

(iv) To comply with technical and professional standards, including ethics requirements.

114.3 A2 In deciding whether to disclose or use 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 organization authorizes the disclosure or use of information by the CMA.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use the information include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different,

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the jurisdiction where the confidential information originates.

114.3 A3 The circumstances in which a firm or employing organization seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorization of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R114.4 A CMA shall continue to comply with the principle of confidentiality even after the end of the relationship between him and a client or employing organization. When changing employment or acquiring a new client, the CMA is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A CMA shall comply with the principle of professional behavior, which requires him to:

(a) Comply with relevant laws and regulations;

(b) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and

(c) Avoid any conduct that he knows or should know might discredit the profession.

A CMA 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.

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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 promoting professional services, a CMA shall follow the guidelines as issued by the Institute in this regard from time to time. The CMA shall not bring the profession into disrepute. A CMA shall be honest and truthful and shall not make:

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the CMA; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a CMA is in doubt about whether a form of advertising or marketing is appropriate, he is encouraged to consult with the Institute.

SECTION 120 - THE CONCEPTUAL FRAMEWORK

Introduction

120.1 The circumstances in which CMAs operate might create threats to compliance with the fundamental principles. Section 120 of the Code sets out requirements and application material, including a conceptual framework, to assist CMAs 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 CMAs 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 CMA 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 CMA shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110 of the Code.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

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(a) Part 2 – CMAs in Business;

(b) Part 3 –CMAs in Practice; and

(c) 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 CMA shall consider the context in which the issue has arisen or might arise. Where an individual who is a CMA in practice is performing professional activities pursuant to his relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 of the Code that apply to these circumstances.

R120.5 When applying the conceptual framework, the CMA shall:

(a) Have an inquiring mind;

(b) Exercise professional judgment; and

(c) Use the reasonable and informed third party test described in paragraph 120.5 A9 of the Code.

Having an Inquiring Mind

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

(a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and

(b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the CMA might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the CMA.
- There is an inconsistency between the known facts and circumstances and his expectations.
- The information provides a reasonable basis on which to reach a

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conclusion.

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

120.5 A3 Paragraph R120.5 of the Code requires all CMAs to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all CMAs regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the Institute, CMAs are also required to exercise professional skepticism, which includes a critical assessment of evidence.

Exercising Professional Judgment

120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

120.5 A5 Professional judgment is required when the CMA 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. In making this determination, he might consider matters such as whether:

- His expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- His own preconception or bias might be affecting his exercise of professional judgment.

120.5 A6 The circumstances in which CMAs carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgment exercised by them might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

120.5 A7 Managing complexity involves:

- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R113.3 of the Code)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any

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judgments he has made. (Ref: Para. R120.5 to 120.5 A3, and R120.9 to 120.9 A2 of the Code)

120.5 A8 Managing complexity might also involve:

- Analyzing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyze relevant data to inform the CMA's judgment.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

120.5 A9 The reasonable and informed third party test is a consideration by the CMA 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 CMA 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 CMA, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of his conclusions in an impartial manner.

Identifying Threats

R120.6 The CMA 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 CMA'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 organization that can enhance the CMA acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 of the Code 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:

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(a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a CMA's judgment or behavior;

(b) Self-review threat – the threat that a CMA will not appropriately evaluate the results of a previous judgment made, or an activity performed by him or by another individual within his firm or employing organization, on which he will rely when forming a judgment as part of performing a current activity;

(c) Advocacy threat – the threat that a CMA will promote a client's or employing organization's position to the point that his objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a CMA will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that a CMA will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over him.

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 CMA identifies a threat to compliance with the fundamental principles, he 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 CMA using the reasonable and informed third party test would likely conclude that he 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 CMA'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 of the Code might also be factors that are relevant in evaluating the level of threats to compliance with the 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 CMA and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics

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requirements.

- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the CMA 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, he shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the CMA 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 his 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 CMA is required to evaluate and, as appropriate, address this threat. (Refer Paragraphs R120.7 and R120.10 of the Code).

Addressing Threats

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

Actions to Eliminate Threats

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 CMA takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

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Consideration of Significant Judgments Made and Overall Conclusions Reached

R120.11 The CMA shall form an overall conclusion about whether the actions that he 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, he shall:

(a) Review any significant judgments made or conclusions reached; and

(b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

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120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organizational Culture

120.13 A1 The effective application of the conceptual framework by a CMA is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of his organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;

b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;

c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and

d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 CMAs are expected to:

a) Encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and

b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the CMA, the firm or the employing organization has a professional or business relationship.

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.14A1 Firms are responsible to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

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Independence

120.15 A1 Members in practice are required by *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.

120.15 A2 *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. CMAs 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 of the Code are also the categories of threats to compliance with independence requirements.

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 of the Code that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the standards issued by the Institute in this regard, is an example of such conditions, policies and procedures.

Professional Skepticism

120.16 A1 Under auditing, review and other assurance standards, including those issued by the Institute, members in 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 of the Code are inter-related concepts.

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

- *Integrity* requires the CMA to be straightforward and honest. For example, CMA complies with the principle of integrity by:
  - Being straightforward and honest when raising concerns about a position taken by a client.
  - 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.
  - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:
    (a) Standing one's ground when confronted by dilemmas and difficult situations; or
    (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

  In doing so, he demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.
- *Objectivity* requires the CMA to exercise professional or business judgment without being compromised by:
  (a) Bias;
  (b) Conflict of interest; or
  (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

  For example, he complies with the principle of objectivity by:
  (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise his professional or business judgment; and
  (b) Considering the impact of such circumstances and relationships on his judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's cost / financial /other statements.

  In doing so, he behaves in a manner that contributes to the exercise of professional skepticism.
- *Professional competence and due care* requires the CMA to have

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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, a CMA 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 CMA behaves in a manner that contributes to the exercise of professional skepticism.

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PART 2
CMAs IN BUSINESS

SECTION 200 - APPLYING THE CONCEPTUAL FRAMEWORK - CMAs IN BUSINESS

Introduction

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

200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of CMAs in business. CMAs in business might be solely or jointly responsible for the preparation and reporting of cost / financial and other information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective cost/financial management and competent advice on a variety of business-related matters.

200.3 A CMA in business might be an employee, contractor, partner, director (executive or non-executive), owner, manager, or volunteer of an employing organization. The legal form of the relationship of the CMA with the employing organization has no bearing on the ethical responsibilities placed on the CMA.

200.4 In this Part, the term "CMA" refers to:

(a) A CMA in Business ; and

(b) An individual who is a CMA in practice when performing professional activities pursuant to his relationship with his firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to CMAs in practice is set out in paragraphs R120.4, R300.5 and 300.5 A1 of the Code.

Requirements and Application Material

General

R200.5 A CMA shall comply with the fundamental principles set out in Section 110 of the Code and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to compliance with the fundamental principles.

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200.5 A1 A CMA has a responsibility to further the legitimate objectives of his employing organization. The Code does not seek to hinder him from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Removed.

200.5 A3 The more senior the position of a CMA, 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 organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, they are expected to encourage and promote an ethics-based culture in the organization and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the CMA or the employing organization has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

200.6 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 of the Code. The following are examples of facts and circumstances within each of those categories that might create threats for a CMA when undertaking a professional activity:

(a) Self-interest Threats

- A CMA holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A CMA participating in incentive compensation arrangements offered by the employing organization.
- A CMA having access to corporate assets for personal use.
- A CMA being offered a gift or special treatment from a supplier of the employing organization.

(b) Self-review Threats

- A CMA determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

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(c) Advocacy Threats

- A CMA having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.

(d) Familiarity Threats

- A CMA being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
- A CMA having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A CMA or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - The application of an accounting principle.
  - The way in which cost / financial information is to be reported.
- An individual attempting to influence the decision- making process of the CMA, for example with regard to the awarding of contracts or the application of an accounting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a CMA when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The CMA might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended. (Ref: Para. 230.2 of the Code)
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgment of the CMA or employing organization.

Evaluating Threats

200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1

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and 120.8 A2 of the Code might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

200.7 A2 The CMA's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.

200.7 A3 The CMA's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:

- Leadership that stresses the importance of ethical behavior and the expectation that employee 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 caliber 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.

200.7 A4 The CMA's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organization and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology;
- Assessments of the quality and functionality of technology that are undertaken by a third-party;
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

200.7 A5 CMAs might consider obtaining legal advice where they believe that unethical behavior or actions by others have occurred, or will continue to occur, within the employing organization.

Addressing Threats

200.8 A1 Sections 210 to 270 of the Code describe certain threats that might arise during the course of performing professional activities and include

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examples of actions that might address such threats.

200.8 A2 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 CMA to resign from the employing organization.

Communicating with Those Charged with Governance

R200.9 When communicating with those charged with governance in accordance with the Code, a CMA shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If he communicates with a subgroup of those charged with governance, he shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.9 A1 In determining with whom to communicate, a CMA might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

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

R200.10 If a CMA communicates with individuals who have management responsibilities as well as governance responsibilities, he shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom he would otherwise communicate.

200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization 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 CMA has satisfied the requirement to communicate with those charged with governance.

SECTION 210

CONFLICTS OF INTEREST

Introduction

210.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

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

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(a) A CMA undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

(b) The interest of a CMA with respect to a particular matter and the interests of a party for whom he undertakes a professional activity related to that matter are in conflict.

A party might include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

Requirements and Application Material

General

R210.4 A CMA shall not allow a conflict of interest to compromise professional or business judgment.

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

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the CMA to the advantage or disadvantage of the other organization.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the CMA to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the CMA's employing organization who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organization when an immediate family member of the CMA might benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the CMA or an immediate family member.

Conflict Identification

R210.5 A CMA 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:

(a) The nature of the relevant interests and relationships between the parties involved; and

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(b) The activity and its implication for relevant parties.

R210.6 A CMA 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.

Threats Created by Conflicts of Interest

210.7 A1 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

Disclosure and Consent

General

210.8 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 organization affected by a conflict; and

(b) Obtain consent from the relevant parties for the CMA to undertake the professional activity when safeguards are applied to address the threat.

210.8 A2 Consent might be implied by a party's conduct in circumstances where the CMA 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.

210.8 A3 If such disclosure or consent is not in writing, the CMA 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.

Other Considerations

210.9 A1 When addressing a conflict of interest, the CMA is encouraged to seek guidance from within the employing organization or the Institute. When

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making such disclosures or sharing information within the employing organization or seeking guidance from the Institute, the principle of confidentiality applies.

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

220.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

220.2 Preparing or presenting information might create a self-interest, intimidation or other threats 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

220.3 A1 CMAs at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

220.3 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.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's state of affairs and in making decisions concerning the organization. Information can include financial and non-financial 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 Cost / financial statements.

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- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

R220.4 When preparing or presenting information, a CMA 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) Exercise 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;

(d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;

(e) Avoid undue influence of, or undue reliance on, individuals, organizations or technology; and

(f) Be aware of the risk of bias.

220.4 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.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. The CMA shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 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.

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- 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. Reframing - Cost
- 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.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the CMA 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.

220.6 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.

220.6 A2 The CMA might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others

R220.7 CMA, who intends to use the work of others, whether internal or external to the employing organization, or other organizations, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider when a CMA intends to use the work of others include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- 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 organization.

Using the Output of Technology

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R220.8 A CMA who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a CMA intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether he has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that is or Might be Misleading

R220.9 When the CMA knows or has reason to believe that the information with which he is associated is misleading, he shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the CMA's superior and/or the appropriate level(s) of management within his employing organization 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 organization

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(for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The CMA might determine that the employing organization has not taken appropriate action. If he continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that he remains alert to the principle of confidentiality:

- Consulting with:
  - The Institute.
  - The internal or external auditor of the employing organization.
  - Legal counsel.
- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory authorities.

R220.10 If after exhausting all feasible options, the CMA determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, he shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for a CMA to resign from the employing organization.

Documentation

220.11 A1 The CMA 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 he attempted to address the matter(s).

Other Considerations

220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to cost /financial reporting and decision making, the requirements and application material set out in Section 240 of the Code apply.

220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 of the Code apply.

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220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 of the Code apply.

220.12 A4 When a CMA is considering using the work of others or the output of technology, a consideration is whether he is in a position within the employing organization to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

Introduction

230.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R230.3 A CMA shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.

230.3 A1 The principle of professional competence and due care requires that a CMA only undertake significant tasks for which he has, or can obtain, sufficient training or experience.

230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if a CMA has:

- Insufficient time for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties.
- Insufficient experience, training and/or education.
- Inadequate resources for the performance of the duties.

230.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The extent to which the CMA is working with others.
- The relative seniority of the CMA.
- The level of supervision and review applied to the work.

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

- Obtaining assistance or training from someone with the necessary expertise.
- Ensuring that there is adequate time available for performing the relevant duties.

R230.4 If a threat to compliance with the principle of professional competence and due care cannot be addressed, a CMA shall determine whether to decline to perform the duties in question. If he determines that declining is appropriate, he shall communicate the reasons.

Other Considerations

230.5 A1 The requirements and application material in Section 270 of the Code apply when a CMA is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO COST / FINANCIAL REPORTING AND DECISION MAKING

Introduction

240.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R240.3 A CMA shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

240.3 A1 CMAs might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to cost /financial reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the CMA or an immediate or close family member:

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- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by his decisions.
- Is eligible for a profit-related bonus and the value of that bonus might be directly affected by his decisions.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by his decisions.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
  - All relevant interests.
  - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270 of the Code, *Pressure to Breach the Fundamental Principles*.

SECTION 250

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

250.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

250.2 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 behavior.

250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires a CMA to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

250.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. 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

R250.5 The CMA shall obtain an understanding of relevant laws and regulations and comply with them when he encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

250.6 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 Behavior

R250.7 A CMA shall not offer, or encourage others to offer, any inducement that is made, or which he considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another

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individual.

R250.8 **A CMA shall not accept, or encourage others to accept, any inducement that he 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 behavior of the recipient or of another individual.**

250.9 A1 An inducement is considered as improperly influencing an individual's behavior 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 CMA in considering what constitutes unethical behavior on his part and, if necessary by analogy, other individuals.

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

250.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior 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 organization, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the inducement.
- Whether the CMA knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.

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- The known previous behavior or reputation of the offeror.

Consideration of Further Actions

250.10 A1 If the CMA becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R250.7 and R250.8 of the Code are met.

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

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

Inducements with No Intent to Improperly Influence Behavior

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

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

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

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

250.11 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 250.9 A3 of the Code for determining intent.

250.11 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 the CMA has no

reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

250.11 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 organization of the CMA or of the counterparty about offering or accepting an inducement.
- Registering the inducement in a log maintained by his employing organization or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or his decisions with respect to the individual or organization from which he 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 Members

R250.12 A CMA shall remain alert to potential threats to his compliance with the fundamental principles created by the offering of an inducement:

(a) By his immediate or close family member to a counterparty with whom he has a professional relationship; or

(b) To his immediate or close family member by a counterparty with whom he has a professional relationship.

R250.13 Where the CMA 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 his behavior or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, he shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A3 of the Code are relevant in determining whether there is actual or perceived intent to improperly influence his behavior or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

(a) Him and the immediate or close family member;

(b) The immediate or close family member and the counterparty; and

(c) He and the counterparty.

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

250.13 A2 The application material in paragraph 250.10 A2 of the Code is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the CMA or of the counterparty even if the immediate or close family member has followed the advice given pursuant to paragraph R250.13 of the Code.

Application of the Conceptual Framework

250.14 A1 Where the CMA becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12 of the Code, threats to compliance with the fundamental principles might be created where:

(a) The immediate or close family member offers or accepts the inducement contrary to the advice of the CMA pursuant to paragraph R250.13 of the Code; or

(b) The CMA does not have reason to believe an actual or perceived intent to improperly influence his behavior or of the counterparty exists.

250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 A6 of the Code 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 250.13 A1 of the Code.

Other Considerations

250.15 A1 If a CMA is offered an inducement by the employing organization relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 of the Code apply.

250.15 A2 If a CMA 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 organization, the requirements and application material set out in Section 260 of the Code apply.

250.15 A3 If a CMA faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 of the Code apply.

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

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Introduction

260.1 CMA are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

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

260.3 A CMA 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 CMA 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 recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization'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 organization's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the CMA in Relation to Non-compliance with Laws and Regulations

260.4 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 CMA are:

(a) To comply with the principles of integrity and professional behavior;

(b) By alerting management or, where appropriate, those charged with governance of the employing organization, 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

260.5 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:

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(a) The CMA's employing organization;

(b) Those charged with governance of the employing organization;

(c) Management of the employing organization; or

(d) Other individuals working for or under the direction of the employing organization.

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

- Fraud, corruption and bribery.
- Corporate Law and compliances
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection, privacy and safety.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- ESG Compliances
- Diversity, Equity and Inclusivity

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its cost/ financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or 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.

R260.6 When encountering such non-compliance or suspected non-compliance, he 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.

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

260.7 A1 This section applies regardless of the nature of the employing organization,

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including whether or not it is a public interest entity.

260.7 A2 A CMA 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 organization, its stakeholders and the general public.

260.7 A3 This section does not address:

(a) Personal misconduct unrelated to the business activities of the employing organization; and

(b) Non-compliance by parties other than those specified in paragraph 260.5 A1 of the Code.

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

Responsibilities of the Employing Organization's Management and Those Charged with Governance

260.8 A1 The employing organization's management, with the oversight of those charged with governance is responsible for ensuring that the employing organization'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 organization;

(b) An individual charged with governance of the employing organization;

(c) A member of management; or

(d) Other individuals working for or under the direction of the employing organization.

Responsibilities of All CMAs

R260.9 If protocols and procedures exist within the CMA's employing organization to address non-compliance or suspected non-compliance, he shall consider them in determining how to respond to such non-compliance.

260.9 A1 Many employing organizations 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 whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

R260.10 Where a CMA becomes aware of a matter to which this section applies, the steps that he takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, he shall have

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regard to the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees or the general public.

Responsibilities of Senior CMAs in Business

260.11 A1 Senior CMAs in business are directors, officers or key managerial personnel able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization'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 CMAs within the employing organization. This is because of senior CMAs' roles, positions and spheres of influence within the employing organization.

Obtaining an Understanding of the Matter

R260.12 If, in the course of carrying out professional activities, a senior CMA becomes aware of information concerning non-compliance or suspected non-compliance, he 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 organization, investors, creditors, employees or the wider public.

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

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

Addressing the Matter

R260.13 If the senior CMA identifies or suspects that non- compliance has occurred or might occur, he shall, subject to paragraph R260.9 of the Code, discuss the matter with his immediate superior, if any. If his immediate superior appears to be involved in the matter, he shall discuss the matter with the next higher level of authority within the

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employing organization.

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

R260.14 The senior CMA 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.

260.14 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.

260.14 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.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior CMA shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed.

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

Determining Whether Further Action Is Needed

R260.16 The senior CMA shall assess the appropriateness of the response of his superiors, if any, and those charged with governance.

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

- The response is timely.
- They have taken or authorized 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.

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

R260.17 In light of the response of the senior CMA's superiors, if any, and those charged with governance, he shall determine if further action is needed in the public interest.

260.17 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 organization.
- Whether the senior CMA continues to have confidence in the integrity of his 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 organization, investors, creditors, employees, general public or other stakeholders.

260.17 A2 Examples of circumstances that might cause the senior CMA no longer to have confidence in the integrity of his superiors and those charged with governance include situations where:

- The CMA 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 authorized the reporting of, the matter to an appropriate authority within a reasonable period.

R260.18 The senior CMA shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, he shall take into account whether a reasonable and informed third party would be likely to conclude that he has acted appropriately in the public interest.

260.18 A1 Further action that the senior CMA might take includes:

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

260.18 A2 Resigning from the employing organization is not a substitute for taking other actions that might be needed to achieve the senior CMA's objectives

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under this section. In some jurisdictions, however, there might be limitations as to the further actions available to him. In such circumstances, resignation might be the only available course of action.

Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgments, the senior CMA might consider:

- Consulting internally.
- Obtaining legal advice to understand his 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

260.20 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.

260.20 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, general public or any stakeholders. For example, the senior CMA might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

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

260.20 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 CMA or other individuals.

R260.21 If the senior CMA 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 R114.3 of the Code. When making such disclosure, he shall act in good faith and exercise caution when making statements and assertions.

Imminent Breach

R260.22 In exceptional circumstances, the senior CMA might become aware of actual or intended conduct that he has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees, general public or other stakeholders. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organization, he 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 R114.3 of the Code.

Documentation

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

- The matter.
- The results of discussions with his superiors, if any, and those charged with governance and other parties.
- How his superiors, if any, and those charged with governance have responded to the matter.
- The courses of his action considered, the judgments made and the decisions that were taken.
- How he is satisfied that the accountant has fulfilled the responsibility set out in paragraph R260.17 of the Code.

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Responsibilities of CMAs Other than Senior CMAs

R260.24 If, in the course of carrying out professional activities, a CMA becomes aware of information concerning non-compliance or suspected non-compliance, he 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.

260.24 A1 The CMA is expected to apply knowledge and expertise, and exercise professional judgment. However, he is not expected to have a level of understanding of laws and regulations greater than that which is required for his role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.24 A2 Depending on the nature and significance of the matter, the CMA might consult on a confidential basis with others within the employing organization or the Institute or with legal counsel.

R260.25 If the CMA identifies or suspects that non- compliance has occurred or might occur, he shall, subject to paragraph R260.9 of the Code, inform an immediate superior to enable the superior to take appropriate action. If his immediate superior appears to be involved in the matter, the accountant shall inform the next higher level of authority within the employing organization.

R260.26 In exceptional circumstances, the CMA may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If he does so pursuant to paragraphs 260.20 A2 and A3 of the Code, that disclosure is permitted pursuant to paragraph R114.3 of the Code. When making such disclosure, he shall act in good faith and exercise caution when making statements and assertions.

Documentation

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

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

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

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Introduction

270.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

270.2 Pressure exerted on, or by, a CMA might create an intimidation or other 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

R270.3 A CMA shall not:

(a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or

(b) Place pressure on others that he knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 A CMA might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

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

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

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

  See also Section 210 of the Code, *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 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 Section 220 of the Code*, Preparation and Presentation of Information.*

- Pressure to act without sufficient 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 Section 230 of the Code*, Acting with Sufficient Expertise.*

- 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.

See Section 240 of the Code*, Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making.*

- Pressure related to inducements:
  - Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
  - 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 Section 250 of the Code*, Inducements, Including Gifts and Hospitality.*

- Pressure related to non-compliance with laws and regulations:
  - Pressure to structure a transaction to evade tax.

See Section 260 of the Code*, Responding to Non-compliance with Laws and Regulations.*

- Pressure related to level of fees:
  - Pressure exerted by a CMA on another CMA to provide professional services at a fee level that does not allow for

sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See Section 330 of the Code*, Fees and Other Types of Remuneration*

270.3 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 organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the CMA to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with his superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
    - Higher levels of management.
    - Internal or external auditors.
    - Those charged with governance.
- Disclosing the matter in line with the employing organization'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 CMA;

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- Relevant professional or regulatory bodies or industry associations; or
- Legal counsel.

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

Documentation

270.4 A1 The CMA 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.

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PART 3
CMAs IN PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – CMAs IN PRACTICE

Introduction

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

300.2 The requirements and application material that apply to CMAs in practice are set out in:

- Part 3 – *CMAs in Practice*, Sections 300 to 399 of the Code, which applies to all CMAs in practice, whether they provide assurance services or not.
- *Independence Standards* as follows:
  - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899 of the Code, which applies to the CMA in practice when performing audit and review engagements.
  - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, Sections 900 to 999 of the Code, which applies to CMAs in practice when performing assurance engagements other than audit or review engagements.

300.3 In this Part, the term "CMA" refers to individual members in practice and their firms as per the Cost Accountants Act, 1959.

Requirements and Application Material

General

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

R300.5 When dealing with an ethics issue, a CMA shall consider the context in which the issue has arisen or might arise. Where an individual who is a CMA in practice is performing professional activities pursuant to his relationship with the firm, whether as a contractor, proprietor or

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partner, the individual shall comply with the provisions in Part 2 of the Code that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 of the Code apply to a CMA in practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the CMA might benefit financially from the contract. The requirements and application material set out in Section 210 of the Code apply in these circumstances.
- Preparing or presenting cost / financial information for the CMA's client or firm. The requirements and application material set out in Section 220 of the Code 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 250 of the Code 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 270 of the Code apply in these circumstances.

300.5 A2 The more senior the position of a CMA, 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 firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, CMAs are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the CMA or the firm has a professional or business relationship in accordance with paragraph 120.13 A3 of the Code. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

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 of the Code. The following are examples of facts and circumstances within each of those categories of threats that

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might create threats for a CMA when undertaking a professional service:

(a) Self-interest Threats

- A CMA having a direct financial interest in a client.
- A CMA 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 CMA having a close business relationship with a client.
- A CMA having access to confidential information that might be used for personal gain.
- A CMA discovering a significant error when evaluating the results of a previous professional service performed by a member of his firm.

(b) Self-review Threats

- A CMA issuing an assurance report on the effectiveness of the operation of cost/financial systems after implementing the systems.
- A CMA having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A CMA promoting the interests of, or shares in, a client.
- A CMA acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A CMA lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A CMA 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.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A CMA being threatened with dismissal from a client

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engagement or the firm because of a disagreement about a professional matter.

- A CMA feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A CMA being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A CMA having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a CMA when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2 of the Code).

- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgment of the accountant or the firm.

Evaluating Threats

300.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 of the Code 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 CMA'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 CMA's evaluation of the level of a threat might be impacted by whether the client is:

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(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 CMA'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 CMA's evaluation of the level of a threat might be impacted by the work environment within his 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 any 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.

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300.7 A6 The CMA's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within his firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 New information or changes in facts and circumstances might:

(a) Impact the level of a threat; or

(b) Affect the CMA'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 CMA re-evaluate and address the threats accordingly. (Refer Paragraphs R120.9 and R120.10 of the Code).

300.7 A8 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 publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the CMA is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the CMA's personal or immediate family relationships.

Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 of the Code 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 teams with separate reporting lines for the provision of non-assurance services to an assurance client (except statutory audit engagements) 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 of the Code and *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 prōvided. Such an individual might be a CMA.

Communicating with Those Charged with Governance

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

300.9 A1 In determining with whom to communicate, a CMA 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.

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R300.10 If a CMA communicates with individuals who have management responsibilities as well as governance responsibilities, he shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom he 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 CMA has satisfied the requirement to communicate with those charged with governance.

SECTION 310

CONFLICTS OF INTEREST

Introduction

310.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code 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 the other fundamental principles. Such threats might be created when:

(a) A CMA 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 CMA with respect to a particular matter and the interests of the client for whom he 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 CMA provides an audit, review or other assurance service, independence is also required in accordance with *Independence Standards*.

Requirements and Application Material

General

R310.4 A CMA 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

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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 license 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 CMA 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 CMA 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:

(a) The nature of the relevant interests and relationships between the parties involved; and

(b) The service and its implication for relevant parties.

310.5 A1 An effective conflict identification process assists a CMA 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

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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 CMA 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 CMA 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 CMA is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage him initially might not be involved in a dispute.

Network Firms

R310.7 If the firm is a member of a network, a CMA shall consider conflicts of interest that he 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 unauthorized disclosure of confidential information when performing professional services related

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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 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 CMA 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 CMA 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, a CMA 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 CMA 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 CMA 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 CMA has determined that explicit consent is necessary in accordance with paragraph R310.9 of the Code 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 CMA 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 of the Code 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

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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 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 in 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 of the Code, the CMA 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 teams serving the two clients; and

(c) Why it is appropriate to accept or continue the engagement.

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

320.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code 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

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circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

320.3 A1 Threats to compliance with the principles of integrity or professional behavior 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 behavior.

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 team does not possess, or cannot acquire, the competencies to perform the 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.
- Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with the Standard issued by the Institute in this regard, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- The level of fees and the extent to which they have regard to the resources required, taking into account the CMA's commercial and market priorities.

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.

320.3 A6 CMA while accepting engagement of attest functions are required to comply with the "Know Your client" (KYC) Norms of the Institute.

320.3 A7 CMAs while accepting engagement of attest functions are required to comply with the Guidelines pertaining to Charging of Fees issued by the Institute from time to time.

Changes in a Professional Appointment

General

R320.4 A CMA shall determine whether there are any reasons for not accepting an engagement when he:

(a) Is asked by a potential client to replace another CMA; or

(b) Considers tendering for an engagement held by another CMA subject to the compliance with the Guidelines for Compliance by the Members of the Institute issued by the Institute from time to time; or

(c) Considers undertaking work that is complementary or additional to that of another CMA.

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 CMA accepts the engagement before knowing all the relevant facts.

320.4 A2 If a CMA is asked to undertake work that is complementary or additional to the work of an existing or predecessor CMA, 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 CMA will be requested. This contact gives the CMA 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 CMA to provide any known

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information of which, in the existing or predecessor CMA's opinion, the CMA 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 CMA 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 CMA (except in case of Audit, Review, Report or any other assignment, as may be prescribed by ICMAI from time to time and governed with the provisions of Clause (8) of Part-I of First Schedule to The Cost Accountants Act, 1959, and Council directions thereunder)

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

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

Communicating with the CMA

R320.7 When an existing or predecessor CMA is asked to respond to a communication from a CMA, the existing or predecessor CMA 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 CMA is bound by confidentiality. Whether the existing or predecessor CMA is permitted or required to discuss the affairs of a client with a CMA will depend on the nature of the engagement and:

(a) Whether the existing or predecessor CMA 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 CMA is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.3 A1 of the Code.

Changes in Audit or Review Appointments

R320.8 Subject to provisions of Clause (8) of Part I of First Schedule of the Cost Accountants Act, 1959, and Council directions thereunder, in the case of an audit or review of cost /financial statements, a CMA shall request the existing or predecessor CMA to provide known information regarding any

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facts or other information of which, in the existing or predecessor CMA's opinion, the CMA needs to be aware before deciding whether to accept the engagement.

The existing or predecessor CMA shall provide the information honestly and unambiguously.

Client and Engagement Continuance

R320.9 For a recurring client engagement, a CMA 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 CMA 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 CMA intends to use the work of an expert in the course of undertaking a professional activity, he shall determine whether the use is appropriate for the intended purpose.

320.10 A1 Factors to consider when a CMA intends to use the work of an expert include:

- The reputation and expertise of, and the resources available, to the expert.
- Whether the expert is subject to applicable professional and ethics standards.

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

Using the Output of Technology

R320.11 When a CMA intends to use the output of technology in the course of undertaking a professional activity, he shall determine whether the use is appropriate for the intended purpose.

320.11A1 Factors to consider when a CMA intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether he has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and

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evaluated for the purpose intended.

- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

320.12 A1 When a CMA is considering using the work of experts or the output of technology, a consideration is whether he is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 321

SECOND OPINIONS

Introduction

321.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code 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 or other 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 CMA 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 CMA 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 CMA will not permit him to communicate with the existing or predecessor CMA, he shall determine whether he may provide the second opinion sought.

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

330.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code 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 might impact a CMA's ability to perform professional services in accordance with technical and professional standards.

330.3 A2 A CMA might quote whatever fee is considered appropriate. 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 determined and which professional services are covered.

- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.3 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 CMA and the basis of remuneration.
- Quality management 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 *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 CMA pays or receives a referral fee or receives a commission relating to a client. Such referral fees or commissions include, for example:

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- A fee paid to another CMA for the purposes of obtaining new client work when the client continues as a client of the existing CMA but requires specialist services not offered by that CMA.
- A fee received for referring a continuing client to another CMA or other expert where the existing CMA does not provide the specific professional service required by the client.

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

- Disclosing to clients any referral fees paid to, or received from, another CMA or third party for recommending services or products might address a self-interest threat.

Purchase or Sale of a Firm

330.6 A1 A CMA 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 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code 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 behavior.

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 CMA 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 behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between CMAs 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:

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- 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 A CMA shall obtain an understanding of relevant laws and regulations and comply with them when the he 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 Behavior

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

R340.8 A CMA shall not accept, or encourage others to accept, any inducement that he 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 behavior of the recipient or of another individual.

340.9 A1 An inducement is considered as improperly influencing an individual's behavior 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 CMA in considering what constitutes unethical behavior on his part and, if necessary by analogy, other individuals.

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

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

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- 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 service, 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 firm, 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 CMA 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 behavior or reputation of the offeror.

Consideration of Further Actions

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

340.11 A1 The requirements and application material set out in the conceptual framework apply when a CMA has concluded there is no actual or perceived intent to improperly influence the behavior 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 CMA has concluded there is no

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actual or perceived intent to improperly influence behavior include:

- Self-interest threats
    - A CMA is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
    - A CMA regularly takes an existing or prospective client to sporting events.
- Intimidation threats
    - A CMA 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 of the Code 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 CMA 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 CMA with respect to the client from which he 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 Members

R340.12 A CMA shall remain alert to potential threats to his compliance with the fundamental principles created by the offering of an inducement:

(a) By his immediate or close family member to his existing or prospective client.

(b) To his immediate or close family member by his existing or prospective client.

R340.13 Where the CMA becomes aware of an inducement being offered to or made by his immediate or close family member and concludes there is intent to improperly influence his behavior or of his existing or prospective client, or considers a reasonable and informed third party would be likely to conclude such intent exists, he 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 of the Code are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the CMA or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

(a) The CMA and the immediate or close family member;

(b) The immediate or close family member and the existing or prospective client; and

(c) The CMA and the existing or prospective client.

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

340.13 A2 The application material in paragraph 340.10 A2 of the Code is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the CMA 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 of the Code.

Application of the Conceptual Framework

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

(a) The immediate or close family member offers or accepts the inducement contrary to the advice of the CMA pursuant to paragraph R340.13 of the Code; or

(b) The CMA does not have reason to believe an actual or perceived intent

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to improperly influence the behavior 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 of the Code 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 of the Code.

Other Considerations

340.15 A1 If a CMA 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 of the Code 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 of the Code apply.

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

SECTION 350

CUSTODY OF CLIENT ASSETS

Introduction

350.1 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code 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 behavior 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 CMA 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 CMA 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 of the Code would apply.

After Taking Custody

R350.5 A CMA 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 CMAs are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats.

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

360.3 A CMA 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 CMA 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 recognized to have a direct effect on the determination of material amounts and disclosures in the client's cost / 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 client's cost/ financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the CMA in Relation to Non-compliance with Laws and Regulations

360.4 A distinguishing mark of the accountancy profession is its acceptance of the

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responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the CMA are:

(a) To comply with the principles of integrity and professional behavior;

(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non- compliance; or

(ii) Deter the commission of 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, privacy and safety.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety
- ESG Norms
- Diversity, Equity and Inclusivity

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its cost / financial statements. Importantly, such non-compliance might have wider public interest

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implications in terms of potentially substantial harm to investors, creditors, employees, general public or other stakeholders. 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 When encountering such non-compliance or suspected non-compliance, the CMA 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 to audit engagements of listed entities..

360.7 A2 A CMA 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 of the Code. This includes, for example, circumstances where a CMA 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 CMA 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;

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(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 CMA becomes aware of a matter to which this section applies, the steps that he takes to comply with this section shall be taken on a timely basis. In taking timely steps, he 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 Cost / Financial Statements

Obtaining an Understanding of the Matter

R360.10 If a CMA engaged to perform an audit of cost /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 A CMA 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.

360.10A2 A CMA is expected to apply knowledge and expertise, and exercise professional judgment. However, he 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 CMA might consult on a confidential basis with others within the firm, a network firm or the Institute, or with legal counsel.

R360.11 If a CMA identifies or suspects that non-compliance has occurred or might occur, he 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 CMA'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.

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- 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 CMA might also consider discussing the matter with internal auditors and financial auditors, where applicable.

R360.12 If the CMA believes that management is involved in the non-compliance or suspected non-compliance, he 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 CMA 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 CMA 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 CMA might suggest appropriate sources of information or recommend that they obtain legal advice.

R360.15 The CMA 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 the relevant auditing standards issued by the Institute, including those relating to:

- **Identifying and responding to non-compliance, including**

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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 CMA becomes aware of noncompliance or suspected non-compliance in relation to a component of a group, where the parent company is listed (in India) or the component is a listed entity, in either of the following two situations, he shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

(a) The CMA is, for purposes of an audit of the group cost / financial statements, requested by the group engagement team to perform work on financial information related to the component; or

(b) The CMA is engaged to perform an audit of the component's cost/ 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 of the Code applies regardless of whether the group engagement partner's firm or network is the same as or different from the CMA's firm or network.

R360.17 Where the group engagement partner, where the parent company (being a company incorporated under the laws applicable in India) or the component is a listed entity, becomes aware of non-compliance or suspected non-compliance in the course of an audit of group cost / financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

(a) Whose cost / financial information is subject to work for purposes of the audit of the group cost /financial statements; or

(b) Whose cost / financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

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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) of the Code, 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) of the Code 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 The CMA 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 CMA 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 CMA 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, general public and other stakeholders.

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

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

R360.21 The CMA shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, he 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 CMA 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 CMA'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 CMA has withdrawn from the professional relationship

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pursuant to paragraphs R360.20 and 360.21 A1 of the Code, he shall, on request by the proposed CMA pursuant to paragraph R320.8 of the Code, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed CMA.

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

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, general public and other stakeholders. For example, the CMA 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 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 on the nature of the matter. For example, the appropriate authority would be the Institute in case of complaint of professional misconduct against a CMA, whether in public practice or in service, a Securities and Exchange Board of India (SEBI) in the case of fraudulent financial reporting.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation

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or regulation, such as under whistle-blowing legislation or regulation.

- Whether there are actual or potential threats to the physical safety of the CMA or other individuals.

R360.26 If the CMA 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 R114.3 of the Code. When making such disclosure, he shall act in good faith and exercise caution when making statements and assertions. He 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 CMA might become aware of actual or intended conduct that he has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees, general public and other stakeholders. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, he 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.

Documentation

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

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

360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing standards. SCAs, for example, require a CMA performing an audit of cost 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

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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.

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PART 4A

INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that members in practice be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to review, review team, review engagement, review client, and review engagement report.

400.3 In this Part, the term "professional accountant" refers to individual CMAs in practice and their firms.

400.4 A firm requires to design, implement and operate a system of quality management for assurance engagements it performs. As part of this system of quality management, firm requires to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. The relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4A of the Code do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s). Additionally, an individual CMA in Practice remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.

400.5 Independence is linked to the 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.

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(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 team member's, integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 of the Code applies to independence as it does to the fundamental principles set out in Section 110 of the Code.

Additionally, the independence requirements as per the Companies Act, 2013 and Rules prescribed thereunder shall also be applicable to the CMAs in practice while performing audit engagements.

400.7 This Part describes:

(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Public Interest Entities

400.13 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

Reports that Include a Restriction on Use and Distribution

400.16 An audit report might include a restriction on use and distribution. If it

does and the conditions set out in Section 800 of the Code are met, then the independence requirements in this Part may be modified as provided in Section 800 of the Code.

Assurance Engagements other than Audit and Review Engagements

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

Requirements and Application Material

General

R400.18 A firm performing an audit engagement shall be independent.

R400.19 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Related Entities

R400.27 An audit client includes all of its related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence. Besides the above, where the audit client is subject to the provisions of Companies Act, 2013, additional restrictions are prescribed under Section 141 and 144 of the Companies Act, 2013.

Period During which Independence is Required

R400.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and

(b) The period covered by the cost / financial statements.

400.30 A1 The engagement period starts when the engagement 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. Where the audit client is a statutory audit client under the Companies Act, 2013, the engagement period shall be determined in accordance with the relevant provisions of the Companies Act, 2013 and the rules prescribed therein.

R400.31 If an entity becomes an audit client during or after the period covered by the cost / financial statements on which the firm will express an opinion, the firm shall determine whether any threats to

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independence are created by:

(a) Financial or business relationships with the audit client during or after the period covered by the cost /financial statements but before accepting the audit engagement; or

(b) Previous services provided to the audit client by the firm or a network firm.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the cost / financial statements, but before the engagement team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 Subject to compliance with the requirements of Section 144 of the Companies Act, 2013, where applicable, examples of actions that might be safeguards to address such threats include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 of the Code set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

(a) Consider the firm's judgments in identifying and evaluating threats;

(b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and

(c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

Network Firms

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400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct. 'Rules of Network and Merger – Demerger amongst the firms registered with the Institute' issued by the Institute from time to time need to be adhered to in this regard.

R400.51 A network firm shall be independent of the audit clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm.

General Documentation of Independence for Audit and Review Engagements

R400.60 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

(a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

(b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

Mergers and Acquisitions

When a Client Merger Creates a Threat

400.70 A1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R400.71 In the circumstances set out in paragraph 400.70 A1 of the Code,

(a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and

(b) Subject to paragraph R400.72 of the Code, the firm shall take

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steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 **As an exception to paragraph R400.71(b) of the Code, if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:**

(a) Evaluate the threat that is created by the interest or relationship; and

(b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

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

R400.73 **If, following the discussion set out in paragraph R400.72(b) of the Code, those charged with governance request the firm to continue as the auditor, the firm shall do so only if:**

(a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;

(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 of the Code and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality review; and

(c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a CMA in Practice review the audit or non- assurance work as

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appropriate.

- Having a CMA in Practice, who is not a member of the firm expressing the opinion on the cost / financial statements, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non- assurance service or having another firm re-perform the non- assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.74 The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1 of the Code, the firm shall only do so if it:

(a) Has evaluated the level of the threat and discussed the results with those charged with governance;

(b) Complies with the requirements of paragraph R400.73(b) to (c) of the Code; and

(c) Ceases to be the auditor no later than the date that the audit report is issued.

If Objectivity Remains Compromised

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 of the Code could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 of the Code create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

Documentation

R400.76 The firm shall document:

(a) Any interests or relationships identified in paragraph 400.70 A1 of the Code that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;

(b) The transitional measures applied;

(c) The results of the discussion with those charged with governance; and

(d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

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Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:

(i) Comply with those requirements; and

(ii) Consider reporting the breach to the Institute and /or a regulatory body if such reporting is common practice or expected in the relevant jurisdiction;

(c) Promptly communicate the breach in accordance with its policies and procedures to:

(i) The engagement partner;

(ii) The individual with operational responsibility for compliance with independence requirements;

(iii) Other relevant personnel in the firm and, where appropriate, the network; and

(iv) Those subject to the independence requirements in Part 4A of the Code who need to take appropriate action;

(d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and

(e) Depending on the significance of the breach, determine:

(i) Whether to end the audit engagement; or

(ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the audit engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and

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ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit engagement.
- Whether an audit team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements.
- If the breach relates to an audit team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the cost/financial statements on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit team.
- Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary.
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the cost / financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with

those charged with governance:

(a) The significance of the breach, including its nature and duration;

(b) How the breach occurred and how it was identified;

(c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;

(d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and

(e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 of the Code set out requirements with respect to communicating with those charged with governance.

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

(a) **All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and**

(b) **A description of:**

(i) **The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and**

(ii) **Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.**

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) of the Code satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81 of the Code.

Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's

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objectivity and its ability to issue an audit report in the current period.

R400.87 The firm shall also:

(a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and

(b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87 of the Code, the firm shall document:

(a) The breach;

(b) The actions taken;

(c) The key decisions made;

(d) All the matters discussed with those charged with governance; and

(e) Any discussions with the Institute and /or a regulatory body

R400.89 If the firm continues with the audit engagement, it shall document:

(a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and

(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

SECTION 410

FEES

Introduction

410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

410.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

410.3 A1 Fees for professional services are usually mutually agreed with and paid by an audit client and might create threats to independence. This practice is generally recognized and accepted by intended users of cost / financial

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statements.

410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.

410.3 A2 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of cost / financial statements. Where reference is made to the fee for the audit of the cost / financial statements, this does not include any fee for an audit of special purpose cost / financial statements or a review of cost / financial statements. (Ref: Para. R410.23(a) of the Code)

Fees Paid by an Audit Client

410.4 A1 When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence.

410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to reevaluate such threats when facts and circumstances change during the engagement period for the audit.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.

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- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 of the Code might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit Fees

410.5 A1 Determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical, professional standards and guidelines pertaining to Charging of Fees issued by the Institute from time to time.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The significance of the client qualitatively and/or quantitatively to the firm.
- The firm's operational and commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the audit

engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.

- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

Impact of Other Services Provided to an Audit Client

R410.6 Subject to paragraph R410.7 of the Code, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1 of the Code. However, the provision of other services to an audit client is not an appropriate consideration in determining the audit fee.

Contingent Fees

R410.9 The fees which are based on a percentage of profits or which are contingent upon the findings, or results of such work, is not allowed except where permitted by the Cost Accountants Act, 1959 and Regulations / Rules made thereunder.

Total Fees – Overdue Fees

410.12 A1 A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 of the Code with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

410.12 A2 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the audit work.

R410.13 When a significant part of the fees due from an audit client remains unpaid for a long time, the firm shall determine:

(a) Whether the overdue fees might be equivalent to a loan to the client; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Total Fees – Fee Dependency

All Audit Clients

410.14 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm,

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the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.

410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the audit client is reduced.

410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the audit work.
- Reducing the extent of services other than audit provided to the audit client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.14 A7 Examples of actions that might be safeguards to address such self- interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or office to the audit client.
- Increasing the client base of the partner or the office to reduce dependence on the client.

- Increasing the extent of services provided by the partner or the office to other clients.

Transparency of Information Regarding Fees for Audit Clients

Communication About Fee-related Information

410.22 A1 Communication by the firm of fee-related information for audits should be in line with the Companies Act, 2013 and Rules framed thereunder.

Fees for the Audit of the Cost / Financial Statements

R410.23 Subject to paragraph R410.24 of the Code, the firm shall communicate in a timely manner with those charged with governance of an audit client:

(a) Fees paid or payable to the firm or network firms for the audit of the cost/financial statements on which the firm expresses an opinion; and

(b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the cost/financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
  - The scale, complexity and geographic spread of the audit client's operations.
  - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
  - The cost of other resources utilized or expended in performing the audit.
  - The quality of record keeping and processes for cost/financial statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

SECTION 411

COMPENSATION AND EVALUATION POLICIES

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Introduction

411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

411.2 A firm's evaluation or compensation policies might create a self- interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

411.3 A1 When an audit team member for a particular audit client is evaluated on or compensated for providing non-assurance services to that audit client, the level of the self-interest threat will depend on:

(a) What proportion of the compensation or evaluation is based on providing such services;

(b) The role of the individual on the audit team; and

(c) Whether providing such non-assurance services influence promotion decisions.

411.3 A2 Examples of actions that might eliminate such a self-interest threat include:

- Revising the compensation plan or evaluation process for that individual.
- Removing that individual from the audit team.

411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

R411.4 A firm shall not evaluate or compensate a key audit partner based on that partner's success in providing non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

SECTION 420

GIFTS AND HOSPITALITY

Introduction

420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

420.2 Accepting gifts and hospitality from an audit client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual

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framework in such circumstances.

Requirement and Application Material

R420.3 A firm, network firm or an audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.

420.3 A1 Where a firm, network firm or audit team member is offering or accepting an inducement to or from an audit client, the requirements and application material set out in Section 340 of the Code apply and non-compliance with these requirements might create threats to independence.

420.3 A2 The requirements set out in Section 340 of the Code relating to offering or accepting inducements do not allow a firm, network firm or audit team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 430

ACTUAL OR THREATENED LITIGATION

Introduction

430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

430.2 When litigation with an audit client occurs, or appears likely, self- interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

430.3 A1 The relationship between client management and audit team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an audit client and the firm, a network firm or an audit team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

430.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The materiality of the litigation.
- Whether the litigation relates to a prior audit engagement.

430.3 A3 If the litigation involves an audit team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the audit team.

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430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 510

FINANCIAL INTERESTS

Introduction

510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

510.2 Holding a financial interest in an audit client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

510.3 A2 This section contains references to the "materiality" of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

R510.4 Subject to paragraph R510.5 of the Code, a direct financial interest or a material indirect financial interest in the audit client shall not be held by:

(a) The firm or a network firm;

(b) An audit team member, or any of that individual's immediate family;

(c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family; or

(d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of that individual's immediate family.

It may be noted that if the audit client is a statutory audit client under Companies Act, 2013, in accordance with Section 141 (3)(d)(i) of the Companies Act, 2013, an individual practitioner, sole proprietor or partner (as the case may be) or his relatives shall not hold any security of or interest in such Company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. The relative (who is not otherwise covered as immediate family) may hold security or interest in the company of face value not exceeding rupees one lakh or such other sum as may be prescribed from time to time.

510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other engagement team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.5 As an exception to paragraph R510.4 of the Code, an immediate family member identified in subparagraphs R510.4(c) or (d) of the Code may hold a direct or material indirect financial interest in an audit client, provided that:

(a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and

(b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

The above is subject to any additional restrictions applicable to a relative under Companies Act, 2013, where applicable.

Financial Interests in an Entity Controlling an Audit Client

R510.6 When an entity has a controlling interest in an audit client and the client is material to the entity, neither the firm, nor a network firm, nor an audit team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Where the audit client is subject to the provisions of the Companies Act, 2013, firm, individual practitioner, sole proprietor or partner or his relatives are additionally restricted from holding any security of or interest in the holding company. The relative (who is not otherwise covered as immediate family) may hold security or interest in the company of face value not exceeding rupees one lakh or such other sum as may be prescribed from time to time.

Financial Interests Held as Trustee

R510.7 **Paragraph R510.4 of the Code shall also apply to a financial interest in an audit client held in a trust for which the firm, or individual acts as trustee, unless:**

(a) None of the following is a beneficiary of the trust: the trustee, the audit team member or any of that individual's immediate family, the firm or a network firm;

(b) The interest in the audit client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the audit client; and

(d) None of the following can significantly influence any investment decision involving a financial interest in the audit client: the trustee, the audit team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Audit Client

R510.8 **(a) A firm, or a network firm, or an audit team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:**

(i) The financial interests are immaterial to the firm, the network firm, the audit team member and that individual's immediate family member and the audit client, as applicable; or

(ii) The audit client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R510.8(a) of the Code can become an audit team member, the individual or that individual's immediate family member shall either:

(i) Dispose of the interest; or

(ii) Dispose of enough of the interest so that the remaining interest is no longer material.

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Financial Interests Received Unintentionally

R510.9 If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

(a) If the interest is received by the firm or a network firm, or an audit team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) (i) If the interest is received by an individual who is not an audit team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and

(ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

The above is subject to additional restrictions under Companies Act, 2013, where applicable.

Financial Interests – Other Circumstances

Immediate Family

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity.

510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the audit team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit team member with the financial interest from the audit team.

510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the

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audit team member.

Close Family

510.10 A5 A self-interest threat might be created if an audit team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit client.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the audit team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the audit team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

Other Individuals

510.10 A9 A self-interest threat might be created if an audit team member knows that a financial interest in the audit client is held by individuals such as:

- Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4 of the Code, or their immediate family members.
- Individuals with a close personal relationship with an audit team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

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

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit team member with the personal relationship from the audit team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the audit team member from any significant decision-making concerning the audit engagement.

- Having an appropriate reviewer review the work of the audit team member.

Retirement Benefit Plan of a Firm or Network Firm

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.

SECTION 511

LOANS AND GUARANTEES

Introduction

511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

511.2 A loan or a guarantee of a loan with an audit client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

511.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with an Audit Client

R511.4 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not make or guarantee a loan to an audit client unless the loan or guarantee is immaterial to:

(a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and

(b) The client.

The above is subject to the Institute's guidelines issued from time to time and the additional restrictions under the Companies Act, 2013, and Rules framed thereunder where applicable.

Loans and Guarantees with an Audit Client that is a Bank or Similar Institution

R511.5 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and

credit card balances.

511.5 A2 Even if a firm or network firm receives a loan from an audit client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the audit client or firm receiving the loan.

511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an audit team member, from a network firm that is not a beneficiary of the loan.

The above is subject to the Institute's guidelines issued from time to time and the additional restrictions under the Companies Act, 2013, and Rules framed thereunder where applicable.

Deposits or Brokerage Accounts

R511.6 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

The above is subject to the Institute's guidelines issued from time to time and the additional restrictions under the Companies Act, 2013, and Rules framed thereunder where applicable.

Loans and Guarantees with an Audit Client that is Not a Bank or Similar Institution

R511.7 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an audit client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

(a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and

(b) The client.

The above is subject to the Institute's guidelines issued from time to time and the additional restrictions under the Companies Act, 2013, and Rules framed thereunder where applicable.

SECTION 520

BUSINESS RELATIONSHIPS

Introduction

520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

520.2 A close business relationship with an audit client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Audit Team Member or Immediate Family Business Relationships

R520.4 A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.

The above is subject to additional restrictions under Companies Act, 2013 where applicable, and the Cost Accountants Act, 1959 or any other Act and

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the rules or the regulations made under those Acts.

Common Interests in Closely-Held Entities

R520.5 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

(a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;

(b) The financial interest is immaterial to the investor or group of investors; and

(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

520.6 A1 The purchase of goods and services, including the licensing of technology from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

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

SECTION 521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an audit team member and a director or officer or, depending on their role, certain employees of the

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audit client.

521.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the audit team.
- The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of an Audit Team Member

521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.

521.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the immediate family member.
- The role of the audit team member.

521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.

R521.5 An individual shall not participate as an audit team member when any of that individual's immediate family:

(a) Is a director or officer of the audit client;

(b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/ financial statements on which the firm will express an opinion; or

(c) Was in such position during any period covered by the engagement or the cost/financial statements.

Close Family of an Audit Team Member

521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an audit team member is:

(a) A director or officer of the audit client; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/financial statements on which the firm will express an opinion.

521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the audit team member and the close family member.
- The position held by the close family member.
- The role of the audit team member.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Audit Team Member

R521.7 An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) A director or officer of the audit client; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/financial statements on which the firm will express an opinion.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the audit team member.
- The position the individual holds with the client.
- The role of the audit team member.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the individual with whom the audit team member has a close relationship.

Relationships of Partners and Employees of the Firm

R521.8 Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family

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relationship between:

(a) A partner or employee of the firm or network firm who is not an audit team member; and

(b) A director or officer of the audit client or an employee of the audit client in a position to exert significant influence over the preparation of the client's accounting records or the cost/financial statements on which the firm will express an opinion.

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the audit team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement.
- Having an appropriate reviewer review the relevant audit work performed.

The above is subject to provisions of the Companies Act, 2013 where applicable, and the Cost Accountants Act, 1959 or any other Act and the rules or the regulations made under those Acts.

SECTION 522

RECENT SERVICE WITH AN AUDIT CLIENT

Introduction

522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

522.1 If an audit team member has recently served as a director or officer, or employee of the audit client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Audit Report

R522.3 The audit team shall not include an individual who, during the period covered by the audit report:

(a) Had served as a director or officer of the audit client; or

(b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/financial statements on which the firm will express an opinion.

Service Prior to Period Covered by the Audit Report

522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit report, an audit team member:

(a) Had served as a director or officer of the audit client; or

(b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or cost/financial statements on which the firm will express an opinion.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement.

522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the audit team member.

522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the audit team member.

SECTION 523

SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT CLIENT

Introduction

523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

523.2 Serving as a director or officer of an audit client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material Service as Director or Officer

R523.3 A partner or employee of the firm or a network firm shall not serve as a director or officer of an audit client of the firm.

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Service as Company Secretary

R523.4 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit client of the firm, unless:

(a) This practice is specifically permitted under local law, professional rules or practice;

(b) Management makes all relevant decisions; and

(c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit client. (More information on providing non-assurance services to an audit client is set out in Section 600 of the Code, *Provision of Non-assurance Services to an Audit Client*.)

SECTION 524

EMPLOYMENT WITH AN AUDIT CLIENT

Introduction

524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

524.2 Employment relationships with an audit client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit Clients

524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit team member or partner of the firm or a network firm:

- A director or officer of the audit client.
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/ financial statements on which the firm will express an opinion.

Former Partner or Audit Team Member Restrictions

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R524.4 **The firm shall ensure that no significant connection remains between the firm or a network firm and:**

(a) A former partner who has joined an audit client of the firm; or

(b) A former audit team member who has joined the audit client, if either has joined the audit client as:

(i) A director or officer; or

(ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/financial statements on which the firm will express an opinion.

A significant connection remains between the firm or a network firm and the individual, unless:

(a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;

(b) Any amount owed to the individual is not material to the firm or the network firm; and

(c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

524.4 A1 Even if the requirements of paragraph R524.4 of the Code are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 of the Code and the entity subsequently becomes an audit client of the firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the audit team.
- The length of time since the individual was an audit team member or partner of the firm or network firm.
- The former position of the individual within the audit team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the audit plan.
- Assigning to the audit team individuals who have sufficient

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experience relative to the individual who has joined the client.

- Having an appropriate reviewer review the work of the former audit team member.

Audit Team Members Entering Employment with a Client

R524.5 A firm or network firm shall have policies and procedures that require audit team members to notify the firm or network firm when entering employment negotiations with an audit client.

524.5 A1 A self-interest threat is created when an audit team member participates in the audit engagement while knowing that the audit team member will, or might, join the client at some time in the future.

524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit team.

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

Audit Clients that are Public Interest Entities

Key Audit Partners

R524.6 Subject to paragraph R524.8, if an individual who was a key audit partner with respect to an audit client that is a public interest entity joins the client as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/ financial statements on which the firm will express an opinion.

Independence is compromised unless, subsequent to the individual ceasing to be a key audit partner:

(i) The audit client has issued audited cost/financial statements covering a period of not less than twelve months; and

(ii) The individual was not an audit team member with respect to the audit of those cost/financial statements.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

R524.7 Subject to paragraph R524.8 of the Code, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit client that is a public interest entity as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the cost/ financial statements on which the firm will express an opinion,

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Independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Business Combinations

R524.8 **As an exception to paragraphs R524.6 and R524.7 of the Code, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:**

(a) The position was not taken in contemplation of the business combination;

(b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm as applicable;

(c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and

(d) The firm discusses the former partner's position held with the audit client with those charged with governance.

SECTION 525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

525.2 The loan of personnel to an audit client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit client include:

- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
- Not including the loaned personnel as an audit team member might address a familiarity or advocacy threat.
- Not giving the loaned personnel audit responsibility for any function

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or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.

525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.

R525.4 A firm or network firm shall not loan personnel to an audit client unless the firm or network firm is satisfied that:

(a) Such assistance is provided only for a short period of time;

(b) Such personnel will not assume management responsibilities and the audit client will be responsible for directing and supervising the activities of the personnel;

(c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and

(d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

540.2 When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit Clients

540.3 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with:

(a) The audit client and its operations;

(b) The audit client's senior management; or

(c) The cost/financial statements on which the firm will express an opinion or the cost/financial information which forms the basis of

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the cost/financial statements.

540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.

540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

(a) In relation to the individual:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been an engagement team member, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit client:

- The nature or complexity of the client's accounting and

  Cost/ financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

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540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement over a long period of time would be rotating the individual off the audit team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the audit engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.21 of the Code also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9 of the Code, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period) or such period as prescribed under any relevant statute, whichever is less:

(a) The engagement partner;

(b) The individual appointed as responsible for performing the engagement quality review; or

(c) Any other key audit partner role.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs R540.11 to R540.19 of the Code.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in

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paragraph R540.5 (a) to (c) of the Code for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 of the Code as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.15 of the Code.

R540.7 As an exception to paragraph R540.5 of the Code, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5 of the Code, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

R540.9 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5 of the Code, if an independent regulatory body in the relevant jurisdiction has provided an

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exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R540.10 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.

540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.12 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 of the Code for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a combination of key audit partner roles

R540.15 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

R540.16 Subject to paragraph R540.17(a) of the Code, if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R540.17 If an individual has acted in a combination of engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

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(a) As an exception to paragraph R540.16 of the Code, be five consecutive years where the individual has been the engagement partner for three or more years; or

(b) Be three consecutive years in the case of any other combination.

R540.18 If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.15 to R540.17 of the Code, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.19 In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5 of the Code, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

Restrictions on Activities During the Cooling-off Period

R540.21 For the duration of the relevant cooling-off period, the individual shall not:

(a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement;

(b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);

(c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or

(d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:

(i) Having significant or frequent interaction with senior management or those charged with governance; or

(ii) Exerting direct influence on the outcome of the audit engagement.

540.21 A1 The provisions of paragraph R540.21 of the Code are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

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If rotation of partners for an audit client has been stipulated vide any industry/Sector specific provisions contained in a statute, the said provisions shall be applicable with regard to such industry/Sector.

In case of an audit client being a company, rotation of partners shall be dealt in accordance with the provisions of the Companies, Act, 2013 and Rules made thereunder.

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non- assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.

600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

Requirements and Application Material

General

R600.9 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

600.9 A1 The requirements and application material in this section assist the firm in analyzing certain types of non-assurance services and the related threats that might be created if a firm or network firm provides non-assurance services to an audit client.

Additionally, Section 141(3) (i) of the Companies Act, 2013 provides that "a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary

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company shall not be eligible for appointment as an auditor of a company"

Identifying and Evaluating Threats

All Audit Clients

600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit client is set out in paragraph 120.6 A3 of the Code.

600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the accounting records or matters reflected in the cost/financial statements on which the firm will express an opinion, and, if so:
    - The extent to which the outcome of the service will have a material effect on the cost/financial statements.
    - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the cost/financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
    - Accounting records or cost/financial statements on which the firm will express an opinion.
    - Internal controls over cost/financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.

600.10 A3 Subsections 601 to 608 of the Code include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services and evaluating the level of such threats.

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Materiality in relation to cost/financial statements

600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non- assurance service to an audit client. Subsections 601 to 608 of the Code refer to materiality in relation to an audit client's cost / financial statements. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the cost / financial information needs of users.

Multiple non-assurance services provided to the same audit client

R600.13 When a firm or a network firm provides multiple non-assurance services to an audit client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

600.13 A1 Factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to an audit client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit client.

Self-review threats

600.14 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self- review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

R600.15 Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the service will form part of or affect the accounting records, the internal controls over cost / financial reporting, or the cost / financial statements on which the firm will express an opinion; and

(b) In the course of the audit of those cost/financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed

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by the firm or network firm when providing the service.

Providing recommendations

R600.18 A firm or a network firm may provide recommendations to an audit client in relation to information or matters arising in the course of an audit provided that the firm:

(a) Does not assume a management responsibility; and

(b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

600.18 A1 Examples of recommendations that might be provided in relation to information or matters arising in the course of an audit include:

- Recommending on accounting and cost/financial reporting standards or policies and cost/financial statement disclosure requirements.
- Recommending on the appropriateness of financial and accounting control and the methods used in determining the stated amounts in the cost/financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit findings.
- Discussing findings on internal controls over cost/financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.

Addressing Threats

All Audit Clients

600.19 A1 Paragraphs R120.10 to 120.10 A2 of the Code include a requirement and application material that is relevant when addressing threats to independence, including a description of safeguards.

600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit client vary depending on the facts and circumstances of the audit engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

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600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;

(b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or

(c) End the audit engagement.

Considerations for Certain Related Entities

R600.27 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose cost/financial statements the firm will express an opinion:

(a) An entity that has direct or indirect control over the client (other than an engagement to which Companies Act, 2013 applies);

(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; or

(c) An entity which is under common control with the client, provided that all of the following conditions are met:

(i) The firm or a network firm does not express an opinion on the Cost / Financial statements of the related entity;

(ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose Cost / Financial statements the firm will express an opinion;

(iii) The services do not create a self-review threat; and

(iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 Providing accounting and bookkeeping services to an audit client might create a self-review threat.

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601.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing an audit client with accounting and bookkeeping services. This subsection includes requirements that prohibit firms and network firms from providing certain accounting and bookkeeping services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records and cost/financial statements.
- Recording transactions.
- Payroll services.

601.3 A2 Management is responsible for the preparation and fair presentation of the cost/financial statements in accordance with the applicable cost/financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
  - Purchase orders
  - Payroll time records
  - Customer orders
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions

601.3 A3 The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not usually create threats as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

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601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another.

Examples include:

- Complying with group accounting policies.
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.

Accounting and Bookkeeping Services that are Routine or Mechanical

601.4 A1 Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment. Some examples of these services are:

- Preparing payroll calculations or reports based on client originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

Audit Clients that are Public Interest Entities

R601.5 Subject to paragraph R601.6 of the Code, a firm or a network firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements.

R601.6 Subject to paragraph R601.7 of the Code, as an exception to paragraph R601.5, a firm or network firm may provide accounting and bookkeeping services of a routine or mechanical nature for related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:

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(a) The related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or

(b) The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.

R601.7 It is not permitted to do the book keeping work of the auditee client. Under Companies Act, 2013, where applicable, the restriction also applies to the subsidiary company or holding Company of the audit client.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 Providing administrative services to an audit client does not usually create a threat.

602.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing administrative services.

Application Material

All Audit Clients

602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

602.3 A2 Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit client of those dates.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 Providing valuation services to an audit client might create a self-review or advocacy threat.

603.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing valuation services to an audit client. This subsection includes requirements that prohibit firms and network firms from

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providing certain valuation services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

603.3 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

603.3 A2 If a firm or network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.9 A1 to 604.9 A5 of the Code, relating to such services, applies.

603.3 A3 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit client include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent and clarity of the disclosures related to the valuation in the financial statements.
- The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.

603.3 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Not Public Interest Entities

R603.4 A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:

(a) The valuation involves a significant degree of subjectivity; and

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(b) The valuation will have a material effect on the financial statements on which the firm will express an opinion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Audit Clients that are Public Interest Entities

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the valuation service would have a material effect, individually or in the aggregate, on the financial statements on which the firm will express an opinion.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 Providing tax services to an audit client might create a self-review or advocacy threat.

604.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing a tax service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain tax services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

604.3 A1 Tax services comprise a broad range of services, including activities such as:

- Tax return preparation.
- Tax calculations for the purpose of preparing the accounting entries.
- Tax planning and other tax advisory services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.

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604.3 A2 Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit client include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

Tax Return Preparation

All Audit Clients

604.4 A1 Providing tax return preparation services does not usually create a threat.

604.4 A2 Tax return preparation services involve:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities" requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

604.4 A3 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate.

Tax Calculations for the Purpose of Preparing Accounting Entries

All Audit Clients

604.5 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.

604.5 A2 In addition to the factors in paragraph 604.3 A2 of the Code, a factor that is relevant in evaluating the level of the threat created when preparing such calculations for an audit client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

604.5 A3 Examples of actions that might be safeguards to address such a self-review

threat when the audit client is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R604.6 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion. However, the CMA in Practice may review the tax calculation prepared by the client and provide recommendations.

604.6 A1 The examples of actions that might be safeguards in paragraph 604.5 A3 of the Code to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion.

Tax Planning and Other Tax Advisory Services

All Audit Clients

604.7 A1 Providing tax planning and other tax advisory services might create a self-review or advocacy threat.

604.7 A2 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

604.7 A3 In addition to paragraph 604.3 A2 of the Code, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax planning and other tax advisory services to audit clients include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements. For example, whether the advice provided as a result of the tax planning and other tax advisory services:
    - Is clearly supported by a tax authority or other precedent.
    - Is an established practice.
    - Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice will have a material

effect on the financial statements.

- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

604.7 A4 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.8 A firm or a network firm shall not provide tax planning and other tax advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

(a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.

Tax Services Involving Valuations

All Audit Clients

604.9 A1 Providing tax valuation services to an audit client might create a self-review or advocacy threat.

604.9 A2 A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

604.9 A3 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in

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addition to paragraph 604.3 A2 of the Code, the following factors are relevant in evaluating the level of self-review or advocacy threats created by providing those services to an audit client:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.9 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

604.9 A5 A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 of the Code relating to valuation services apply.

Assistance in the Resolution of Tax Disputes

All Audit Clients

604.10 A1 Providing assistance in the resolution of tax disputes to an audit client might create a self- review or advocacy threat.

604.10 A2 A tax dispute might reach a point when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a court.

604.10 A3 In addition to paragraph 604.3 A2 of the Code, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.
- Whether the advice that was provided is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.

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- Whether the proceedings are conducted in public.

604.10 A4 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Resolution of Tax Matters Involving Acting as an Advocate

R604.11 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client if:

(a) The services involve acting as an advocate for the audit client before a court in the resolution of a tax matter; and

(b) The amounts involved are material to the financial statements on which the firm will express an opinion.

604.11 A1 Paragraph R604.11 of the Code does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.11 A2 What constitutes a "Court" depends on how tax proceedings are heard in India. For the purpose of this subsection, "Court" does not include a Tribunal".

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Requirements and Application Material

All Audit Clients

605.1 A1 Internal audit services involve assisting the audit client in the performance of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
  - Reviewing the means used to identify, measure, classify and report financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating

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activities including non-financial activities of an entity.

- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance.

R605. 3 A statutory auditor of an entity cannot be its internal auditor as it will not be possible for him to give an independent and objective opinion. Further, under Companies Act, 2013, where applicable, the restriction also applies to the subsidiary company or holding Company of the audit client.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 Providing information technology (IT) systems services to an audit client might create a self- review threat.

606.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing an IT systems service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

The provisions stated below are subject to the restrictions under Companies Act, 2013, where applicable, which prohibit services related to design and implementation of any financial information system to the Company, its holding company and subsidiary company.

Requirements and Application Material

All Audit Clients

606.3 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

(a) Aggregate source data;

(b) Form part of the internal control over financial reporting; or

(c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to

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the audit client's accounting records or the internal control over financial reporting or financial statements.

606.3 A2 Paragraph R600.7 of the Code precludes a firm or a network firm from assuming a management responsibility. Providing the following IT systems services to an audit client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:

(a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;

(b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;

(c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant; and

(d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

R606.4 When providing IT systems services to an audit client the firm or network firm shall be satisfied that:

(a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

(b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;

(c) The client makes all management decisions with respect to the design and implementation process;

(d) The client evaluates the adequacy and results of the design and implementation of the system; and

(e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

606.4 A1 Factors that are relevant in evaluating the level of a self-review threat created by providing IT systems services to an audit client include:

- The nature of the service.
- The nature of IT systems and the extent to which they impact or interact with the client's accounting records or financial statements.
- The degree of reliance that will be placed on the particular IT systems

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as part of the audit.

606.4 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R606.5 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve designing or implementing IT systems that:

(a) Form a significant part of the internal control over financial reporting; or

(b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 Providing certain litigation support services to an audit client might create a self-review or advocacy threat.

607.2 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Application Material

All Audit Clients

607.3 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.

607.3 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:

- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm

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will express an opinion.

607.3 A3 An example of an action that might be a safeguard to address such a self-review or advocacy threat is using a professional who was not an audit team member to perform the service.

607.3 A4 If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the requirements and application material set out in Subsection 603 of the Code related to valuation services apply.

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 Providing legal services to an audit client might create a self-review or advocacy threat.

608.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.10 of the Code are relevant to applying the conceptual framework when providing a legal service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain legal services to audit clients in some circumstances because the threats cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

608.3 A1 Legal services are defined as any services for which the individual providing the services must either:

(a) Have the required legal training to practice law; or

(b) Be admitted to practice law before the courts of India.

Acting in an Advisory Role

608.4 A1 Legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

608.4 A2 Factors that are relevant in evaluating the level of self-review or advocacy

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threats created by providing legal advisory services to an audit client include:

- The materiality of the specific matter in relation to the client‟s financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

608.4 A3 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Acting as General Counsel

R608.5 A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client.

608.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

Acting in an Advocacy Role

R608.6 A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

608.6 A1 Examples of actions that might be safeguards to address a self-review threat created when acting in an advocacy role for an audit client when the amounts involved are not material to the financial statements on which the firm will express an opinion include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.

609.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework

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when providing a recruiting service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain types of recruiting services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

Requirements and Application Material

All Audit Clients

609.3 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.
  - Interviewing and selecting suitable candidates and advising on candidates‟ competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

609.3 A2 Paragraph R600.7 of the Code precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

R609.4 When a firm or network firm provides recruiting services to an audit client, the firm shall be satisfied that:

(a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and

(b) The client makes all management decisions with respect to the hiring process, including:

  - Determining the suitability of prospective candidates and selecting suitable candidates for the position.

- Determining employment terms and negotiating details, such as salary, hours and other compensation.

609.5 A1 Factors that are relevant in evaluating the level of self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.5 A2 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

R609.6 When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf.

R609.7 A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:

(a) Searching for or seeking out candidates; or

(b) Undertaking reference checks of prospective candidates, with respect to the following positions:

(i) A director or officer of the entity; or

(ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 Providing corporate finance services to an audit client might create a self-review or advocacy threat.

610.2 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.8 of the Code are relevant to applying the conceptual framework when providing a corporate finance service to an audit client. This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to audit clients because the threats created cannot be addressed by applying safeguards.

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The provisions stated below are subject to restrictions under Companies Act, 2013, where applicable, which apply to the Company including its holding company and subsidiary company.

Requirements and Application Material

All Audit Clients

610.3 A1 Examples of corporate finance services that might create a self-review or advocacy threat include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.

610.3 A2 Factors that are relevant in evaluating the level of such threats created by providing corporate finance services to an audit client include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
  - The amounts are material to the financial statements.
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

610.3 A3 Examples of actions that might be safeguards to address threats include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Corporate Finance Services that are Prohibited

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R610.4 **A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.**

R610.5 **A Firm or a network Firm shall not provide corporate finance advice to an audit client where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion and**

(a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.

SECTION 800

REPORTS ON SPECIAL PURPOSE COST/FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Introduction

800.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits of special purpose cost/financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an "eligible audit engagement."

Requirements and Application Material

General

R800.3 **When a firm intends to issue a report on an audit of special purpose cost/financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A of the Code shall be eligible for the modifications that are permitted by this section, but only if:**

(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and

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(b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

R800.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

800.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R800.5 When the firm performs an eligible audit engagement, any modifications to Part 4A of the Code shall be limited to those set out in paragraphs R800.7 to R800.14 of the Code. The firm shall not apply these modifications when an audit of cost / financial statements is required by law or regulation.

R800.6 If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A of the Code to that audit engagement.

Public Interest Entities

R800.7 When the firm performs an eligible audit engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit engagements.

Related Entities

R800.8 When the firm performs an eligible audit engagement, references to "audit client" in Part 4A do not need to include its related entities. However, when the audit team knows or has reason to believe that a

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relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

R800.10 When the firm performs an eligible audit engagement:

(a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 of the Code need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;

(b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525 of the Code, between the audit client and the following audit team members:

(i) Those who provide consultation regarding technical or industry-specific issues, transactions or events; and

(ii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

800.10 A1 Others within a firm who can directly influence the outcome of the audit engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit 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).

R800.11 When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9 of the Code.

R800.12 When the firm performs an eligible audit engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 of the Code to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Employment with an Audit Client

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R800.13 When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3 of the Code.

Providing Non-Assurance Services

R800.14 If the firm performs an eligible audit engagement and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 of the Code and Section 600 of the Code including its subsections, subject to paragraphs R800.7 to R800.9 of the Code.

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PART 4B

INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.
- An audit of specific elements, accounts or items of a cost / financial statement.

900.2 In this Part, the term "professional accountant" refers to CMAs in practice and their firms.

900.3 A firm requires to design, implement and operate a system of quality management for assurance engagements it performs. As part of this system the firm requires to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. The relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s). Additionally, an individual CMA remains

responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.

900.4 Independence is linked to the 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 assurance team member's integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing assurance engagements other than audit or review engagements. The conceptual framework set out in Section 120 of the Code applies to independence as it does to the fundamental principles set out in Section 110 of the Code.

900.6 This Part describes:

(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

Description of Assurance Engagements

900.7 In an assurance engagement, the firm aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. An assurance engagement might either be an attestation engagement or a direct engagement.

900.8 In this Part, the term 'assurance engagement' refers to assurance engagements other than audit engagements and review engagements.

Reports that Include a Restriction on Use and Distribution

900.9 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 of the Code are met, then the independence requirements in this Part may be modified as provided in Section 990 of the Code.

Audit and Review Engagements

900.10 Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A of the Code continue to apply to the firm, a network firm and the audit or review team members.

Requirements and Application Material

General

R900.11 A firm performing an assurance engagement shall be independent of the assurance client.

900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.

900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with

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such parties, including whether any conflicts of interest might exist as described in Section 310 of the Code.

R900.12 A firm shall apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence in relation to an assurance engagement.

Prohibition on Assuming Management Responsibilities

R900.13 A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self- interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.13 A4 Examples of IT systems services that result in the assumption of a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, include where a firm:

- Stores data or manages (directly or indirectly) the hosting of data related to the underlying subject matter or subject matter information. Such services include:
  - Acting as the only access to the data or records related to the underlying subject matter or subject matter information.
  - Taking custody of or storing the data or records related to the underlying subject matter or subject matter information such that the assurance client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the assurance client's data or records related to the underlying subject matter or subject matter information.
- Operates, maintains, or monitors an assurance client's IT systems, network or website related to the underlying subject matter or subject matter information.

900.13 A5 The collection, receipt, transmission and retention of data provided by an assurance client in the course of an assurance engagement or to enable the provision of a permissible non-assurance service to the assurance client does not result in an assumption of management responsibility.

900.13 A6 Subject to compliance with paragraph R900.14 of the Code, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

R900.14 When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

900.14 A1 When technology is used in performing a professional activity for an assurance client, the requirements in paragraphs R900.13 and R900.14 of the Code apply regardless of the nature or extent of such use of the technology.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.15 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

(a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.

(b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

Network Firms

R900.16 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.16 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 of the Code.

Related Entities

R900.17 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and

(b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the engagement 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.

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or

(b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the engagement team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance or non-

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assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

(a) The firm is satisfied that:

(i) The non-assurance service will be completed within a short period of time; or

(ii) The client has arrangements in place to transition the service to another provider within a short period of time;

(b) The firm applies safeguards when necessary during the service period; and

(c) The firm discusses the matter with the party engaging the firm or those charged with governance of the assurance client.

Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 of the Code set out requirements and application material that is relevant to communications with a party engaging the firm or those charged with governance of the assurance client.

900.34 A2 Communication with a party engaging the firm or those charged with governance of the assurance client might be appropriate when significant judgments are made, and conclusions reached, to address threats to independence in relation to an assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

General Documentation of Independence for Assurance Engagements

R900.40 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

(a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

(b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

900.40 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular

matter or whether the firm is independent.

Breach of an Independence Provision for Assurance Engagements

When a Firm Identifies a Breach

R900.50 **If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:**

(a) **End, suspend or eliminate the interest or relationship that created the breach;**

(b) **Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and**

(c) **Determine whether action can be taken that satisfactorily addresses the consequences of the breach.**

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an assurance report.

R900.51 **If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.**

R900.52 **If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.**

R900.53 **If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) of the Code satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.**

Documentation

R900.54 **In complying with the requirements in paragraphs R900.50 to R900.53 of the Code, the firm shall document:**

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(a) The breach;

(b) The actions taken;

(c) The key decisions made; and

(d) All the matters discussed with the party that engaged the firm or those charged with governance.

R900.55 If the firm continues with the assurance engagement, it shall document:

(a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and

(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

SECTION 905

FEES

Introduction

905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

905.2 Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to assurance clients.

Requirements and Application Material

Fees Paid by an Assurance Client

905.3 A1 When fees are negotiated with and paid by an assurance client, this creates a self-interest threat and might create an intimidation threat to independence.

905.3 A2 The application of the conceptual framework requires that before a firm accepts an assurance engagement for an assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period.

905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:

- The level of the fees for the assurance engagement and the extent to

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which they have regard to the resources required, taking into account the firm's commercial and market priorities.

- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The significance of the client to the firm or partner.
- The nature of the client.
- The nature of the assurance engagement.
- The involvement of those charged with governance in agreeing fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 of the Code might also impact the evaluation of whether the threats to independence are at an acceptable level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.

905.4 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the

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assurance engagement review the work performed.

Contingent Fees

905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.6 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.7 A firm shall not charge directly or indirectly a contingent fee for a non- assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.7 A1 Paragraphs R905.6 and R905.7 of the Code preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.7 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 relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees—Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement.

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905.8 A2 It is generally expected that the firm will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.9 When a significant part of the fees due from an assurance client remains unpaid for a long time, the firm shall determine:

(a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 of the Code are applicable; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Total Fees—Fee Dependency

905.10 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from that client impact the level of the self-interest threat and create an intimidation threat.

905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 of the Code even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.

905.10 A3 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Where the firm is expected to diversify such that any dependence on the assurance client is reduced.

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905.10 A5 Examples of actions that might be safeguards to address such threats include:

- Reducing the extent of services other than assurance engagements provided to the client.
- Increasing the client base of the firm to reduce dependence on the assurance client.

905.10 A6 A self-interest or intimidation threat is created when the fees generated by a firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

905.10 A7 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the assurance client to the partner.
- The extent to which the compensation of the partner is dependent upon the fees generated from the client.

905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

- Having an appropriate reviewer who was not an assurance team member review the work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the assurance client.
- Increasing the client base of the partner to reduce dependence on the client.

SECTION 906

GIFTS AND HOSPITALITY

Introduction

906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

906.2 Accepting gifts and hospitality from an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

R906.3 A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.

906.3 A1 Where a firm or assurance team member is offering or accepting an

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inducement to or from an assurance client, the requirements and application material set out in Section 340 of the Code apply and non-compliance with these requirements might create threats to independence.

906.3 A2 The requirements set out in Section 340 of the Code relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 907

ACTUAL OR THREATENED LITIGATION

Introduction

907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

907.3 A1 The relationship between client management and assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

907.3 A2 Factors that are relevant in evaluating the level of such threats include:

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

907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.

907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

SECTION 910

FINANCIAL INTERESTS

Introduction

910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

910.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

910.3 A2 This section contains references to the "materiality" of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

R910.4 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

(a) The firm; or

(b) An assurance team member or any of that individual's immediate family.

Financial Interests in an Entity Controlling an Assurance Client

R910.5 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall

hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R910.6 Paragraph R910.4 of the Code shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

(a) None of the following is a beneficiary of the trust: the trustee, the assurance team member or any of that individual's immediate family, or the firm;

(b) The interest in the assurance client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the assurance client; and

(d) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, the assurance team member or any of that individual's immediate family, or the firm.

Financial Interests Received Unintentionally

R910.7 If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

(a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

Financial Interests – Other Circumstances

Close Family

910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.

910.8 A2 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the assurance team member

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and the close family member.

- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the assurance team.

910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

Other Individuals

910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:

- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4 of the Code, or their immediate family members.
- Individuals with a close personal relationship with an assurance team member.

910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.

910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
- Having an appropriate reviewer review the work of the assurance team member.

SECTION 911

LOANS AND GUARANTEES

Introduction

911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

911.2 A loan or a guarantee of a loan with an assurance client might create a

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self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

911.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with an Assurance Client

R911.4 A firm, an assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:

(a) The firm or the individual making the loan or guarantee, as applicable; and

(b) The client.

Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution

R911.5 A firm, an assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.

911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.

911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

Deposit or Brokerage Accounts

R911.6 A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

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Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution

R911.7 A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

(a) The firm, or the individual receiving the loan or guarantee, as applicable; and

(b) The client.

SECTION 920

BUSINESS RELATIONSHIPS

Introduction

920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

920.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

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

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- Arrangements under which a firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

920.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm licenses products or solutions to or from the assurance client.

Firm, Assurance Team Member or Immediate Family Business Relationships

R920.4 A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.

920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

Buying Goods or Services

920.5 A1 The purchase of goods and services, including the licensing of technology from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

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

Providing, Selling, Reselling or Licensing Technology

920.6 A1 Where a firm provides, sells, resells or licenses technology:

(a) To an assurance client; or

(b) To an entity that provides services using such technology to assurance clients of the firm, depending on the facts and circumstances, the requirements and application material in Section 950 of the Code apply.

SECTION 921

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of

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the Code to identify, evaluate and address threats to independence.

921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.

921.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the assurance team.
- The role of the family member or other individual within the assurance client, and the closeness of the relationship.

Immediate Family of an Assurance Team Member

921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the underlying subject matter of the assurance engagement.

921.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the immediate family member.
- The role of the assurance team member.

921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.

R921.5 An individual shall not participate as an assurance team member when any of that individual's immediate family:

(a) Is a director or officer of the assurance client;

(b) In an attestation engagement, is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or

(c) Was in such a position during any period covered by the

engagement or the subject matter information.

Close Family of an Assurance Team Member

921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:

(a) A director or officer of the assurance client; or

(b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Assurance Team Member

R921.7 An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) A director or officer of the assurance client; or

(b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.
- The role of the assurance team member.

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921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

Relationships of Partners and Employees of the Firm

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

(a) A partner or employee of the firm who is not an assurance team member; and

(b) Any of the following individuals at the assurance client:

(i) A director or officer;

(ii) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.8 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the assurance team.
- The position of the partner or employee within the firm.
- The role of the individual within the client.

921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

SECTION 922

RECENT SERVICE WITH AN ASSURANCE CLIENT

Introduction

922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of

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the Code to identify, evaluate and address threats to independence.

922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During the Period Covered by the Assurance Report

R922.3 The assurance team shall not include an individual who, during the period covered by the assurance report:

(a) Had served as a director or officer of the assurance client; or

(b) Was an employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Service Prior to the Period Covered by the Assurance Report

922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:

(a) Had served as a director or officer of the assurance client; or

(b) Was an employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

922.4 A3 An example of an action that might be a safeguard to address such aself-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

SECTION 923
SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

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Introduction

923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

923.2 Serving as a director or officer of an assurance client creates self- review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

R923.3 A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

Service as Company Secretary

R923.4 A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:

(a) This practice is specifically permitted under law, professional rules or practice;

(b) Management makes all decisions; and

(c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

923.4 A1 Duties of a Company Secretary might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950 of the Code, Provision of Non-assurance Services to an Assurance Client.)

SECTION 924

EMPLOYMENT WITH AN ASSURANCE CLIENT

Introduction

924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

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924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:

- A director or officer of the assurance client.
- An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Former Partner or Assurance Team Member Restrictions

R924.4 If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement, the individual shall not continue to participate in the firm's business or professional activities.

924.4 A1 Even if one of the individuals described in paragraph R924.4 of the Code has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.

924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 of the Code and the entity subsequently becomes an assurance client of the firm.

924.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the assurance team.
- The length of time since the individual was an assurance team member or partner of the firm.
- The former position of the individual within the assurance team or

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firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm.
- Modifying the plan for the assurance engagement.
- Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former assurance team member.

Assurance Team Members Entering Employment Negotiations with a Client

R924.5 A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that assurance team member while on the team.

SECTION 940
LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Introduction

940.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

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Requirements and Application Material

General

940.3 A1 A familiarity threat might be created as a result of an individual's long association with:

(a) The assurance client;

(b) The assurance client's senior management; or

(c) The underlying subject matter or, in an attestation engagement, subject matter information of the assurance engagement.

940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.

940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

- The nature of the assurance engagement.
- How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the underlying subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals at the assurance client who are responsible for the underlying subject matter or, in an attestation engagement, the subject matter information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the

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increasingly close relationship between an assurance team member and an individual at the assurance client who is in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, the subject matter information, would be reduced by the departure of that individual from the client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the assurance engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

Introduction

950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

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950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non- assurance services to assurance clients.

950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms might provide to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

950.5 The requirements and application material in this section apply where a firm:

(a) Uses technology to provide a non-assurance service to an assurance client; or

(b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm:

(i) To an assurance client; or

(ii) To an entity that provides services using such technology to assurance clients of the firm.

Requirements and Application Material

General

Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

950.6 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.13 and R900.14 of the Code have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R950.7 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

950.8 A1 A description of the categories of threats that might arise when a firm provides a non-assurance service to an assurance client is set out in paragraph 120.6 A3 of the Code.

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950.8 A2 Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service to an assurance client include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
    - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
    - The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14 of the Code).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

Materiality in Relation to an Assurance Client's Information

950.9 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an assurance client. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-assurance Services Provided to the Same Assurance Client

950.10 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Self-Review Threats

950.11 A1 A self-review threat might be created if, in an attestation engagement, the

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firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

- Developing and preparingprospective information and subsequently issuing an assurance report on this information.
- Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.
- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.
- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems and subsequently issuing an assurance report on subject matter information, such as elements of non-financial information, that is prepared from information generated by such IT systems.

Assurance clients that are public interest entities

950.12 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

(a) Made available publicly, including to shareholders and other stakeholders; or

(b) Provided to an entity or organization established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.12 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.12 A1 (b) of the Code, the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organization established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

Addressing Threats

950.13 A1 Paragraphs R120.10 to 120.10 A2 of the Code include a requirement and application material that is relevant when addressing threats to independence, including a description of safeguards.

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950.13 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

950.13 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the assurance work or service performed.

950.13 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threat;

(b) Decline or end the service that creates the threat that cannot be eliminated or reduced to an acceptable level; or

(c) End the assurance engagement.

SECTION 990
REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Introduction

990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to independence.

990.2 This section sets out certain modifications to Part 4B of the Code which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 of the Code is referred to as an "eligible assurance engagement."

Requirements and Application Material

General

R990.3 When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B of the Code shall be

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eligible for the modifications that are permitted by this section, but only if:

(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and

(b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.

990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

R990.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R990.5 When the firm performs an eligible assurance engagement, any modifications to Part 4B of the Code shall be limited to those modifications set out in paragraphs R990.7 and R990.8 of the Code.

R990.6 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B of the Code to that assurance engagement.

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

(a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 of the Code need apply only to the members of the engagement team, and their immediate and close family members;

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(b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924 of the Code, between the assurance client and the following assurance team members;

(i) Those who provide consultation regarding technical or industry-specific issues, transactions or events; and

(ii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924 of the Code.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

R990.8 When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

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GLOSSARY

In the ***Code of Ethics (including Independence Standards)***, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Term	Definition
Act	The Cost Accountants Act, 1959
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.
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	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. This term is described in paragraph 300.8 A4 of the Code.
Assurance client	The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).
Assurance engagement	An engagement in which a CMA in practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. *In Part 4B of the Code, the term 'assurance engagement' addresses assurance engagements other than audit engagements or review engagements.*

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Term	Definition
Assurance team	(a) All members of the engagement team for the assurance engagement; (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including: (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 perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.
Attestation engagement	An assurance engagement in which a party other than the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria. A party other than the accountant also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant in the assurance report. In an attestation engagement, the accountant's conclusion addresses whether the subject matter information is free from material misstatement. The accountant's conclusion may be phrased in terms of: • The underlying subject matter and the applicable criteria; • The subject matter information and the applicable criteria; or • A statement made by the appropriate party.
Audit	*In Part 4A of the Code, the term "audit" applies equally to "review."*

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Term	Definition
Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. In Part 4A of the Code, the term "audit client" applies equally to "review client."
Audit engagement	A reasonable assurance engagement in which a CMA in practice expresses an opinion whether cost / financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in material respects), in accordance with an applicable cost/financial reporting framework, such as an engagement conducted in accordance with *Standards on Cost Auditing issued by the Institute*. This includes a Statutory Cost Audit, which is an audit required by legislation or other regulation. *In Part 4A of the Code, the term "audit engagement" applies equally to "review engagement."*
Audit report	In Part 4A of the Code, the term "audit report" applies equally to "review report."
Audit team	(a) All members of the engagement team for the audit engagement; (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the 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

Term	Definition
	(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement. *In Part 4A of the Code, the term "audit team" applies equally to "review team."*
Close family	A parent, child or sibling who is not an immediate family member.
Component	An entity, business unit, function or business activity, or some combination thereof, determined by the auditor for purposes of planning and performing audit procedures in an audit. Component, with reference to Cost Audit, means a factory, unit, branch, subsidiary, product or service for which the management prepares cost statements that should be included in the consolidated cost statements of the entity.
Component audit client	A component, in respect of which an auditor firm or component auditor firm performs audit work.
Component auditor firm	A firm performing audit work related to a component.
Conceptual framework	This term is described in Section 120 of the Code.
Confidential information	Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.
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 of the Code for the purposes of paragraphs R540.11 to R540.19 of the Code.
Criteria	In an assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The

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Term	Definition
	"applicable criteria" are the criteria used for the particular engagement.
Cost Audit	Cost audit is an independent examination of cost statements, cost records and other related information of an entity, when such an examination is conducted with a view to expressing an opinion thereon.
Cost Records	Cost Records means books of accounts relating to utilization of materials, labour, and other items of cost, to facilitate calculation of true and fair cost of production or cost of operations, cost of sales, and margin for each product or service, produced or provided by an entity during a given period.
Cost Reporting Framework	Cost reporting framework means the framework adopted by the management in preparation of cost statements that is acceptable in view of the nature of the entity and the objective of the cost report, or that is required by law or regulation.
Cost Statements	Cost Statements, in relation to an entity, includes unit-wise: i) quantitative details of capacity, production, trade purchases, sales and stocks; ii) quantitative, rates and value details of consumption of materials, utilities and other inputs; iii) cost sheet showing element-wise, total as well as per unit cost of production of goods or provision of services, cost of sales and margin for each product or service; iv) reconciliation of profits or surplus, as per cost accounts and as per financial accounts; and v) any explanatory note annexed to, or forming part of, any document referred to in (i) to (iv) above.
Council	The Governing body of the Institute of Cost Accountants of India constituted under the Cost Accountants Act 1959 for the management of the affairs of the Institute and for discharging the functions assigned to it under the said Act.

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Term	Definition
Direct engagement	An assurance engagement in which a CMA in practice measures or evaluates the underlying subject matter against the applicable criteria and presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, CMA's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	A financial interest: (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. In case of a Company, as defined under Sections 2(34) and 2(59) of the Companies Act, 2013.
Eligible audit engagement	This term is described in paragraph 800.2 of the Code for the purposes of Section 800 of the Code.
Eligible assurance engagement	This term is described in paragraph 990.2 of the Code for the purposes of Section 990 of the Code.
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. Where the audit client is a statutory audit client under the

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Term	Definition
	Companies Act, 2013, the engagement period shall be determined in accordance with the provisions contained in the Companies Act, 2013.
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 review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
Engagement quality reviewer	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement. *In Part 4A of the Code, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9 of the Code.* *In Part 4B of the Code, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.*
Existing accountant	A CMA in practice currently holding an audit appointment or carrying out accounting, tax, 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 organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.

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Term	Definition
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.
Firm	Firm means a sole practitioner, partnership including LLP (Limited Liability Partnership) or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost Accountants Act & Regulations, 1959.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
Independence	Independence 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.

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Term	Definition
	As set out in paragraphs 400.5 and 900.4 of the Code, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B of the Code, as applicable.
Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
Inducement	An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), or between professional accountants and existing or prospective clients (for 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: • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment or other commercial opportunities. • Preferential treatment, rights or privileges.
Institute	Institute means The Institute of Cost Accountants of India constituted under section 2(1)(f) of the Cost Accountants Act,1959 (23 of 1959).
Key audit partner	The engagement partner, the individual responsible for the engagement quality 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" might include, for example, engagement partners for certain components in an audit.

Term	Definition
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
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 firm	A firm or entity that belongs to a network in accordance with the 'Rules of Network and Merger – Demerger amongst the firms registered with the Institute' issued by the ICMAI from time to time.
Non-compliance with laws and regulations (CMA in Service)	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 organization; (b) Those charged with governance of the employing organization; (c) Management of the employing organization; or (d) Other individuals working for or under the direction of the employing organization. This term is described in paragraph 260.5 A1 of the Code.
Non-compliance with laws and regulations (CMA in Practice)	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

Term	Definition
	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 of the Code.
Office	A distinct sub-group, whether organized on geographical or practice lines.
Predecessor accountant	A professional accountant in practice being the immediately preceding accountant who has held same or similar assignment comprising same /similar scope of work.
Professional Accountant	An individual who is a member of the Institute of Cost Accountants of India (CMA). In Part 1 of the Code, the term "professional accountant" refers to the Members of the Institute in Business (CMAs in Business) and to the Members of the Institute in Practice (CMAs in Practice) and their firms (CMAs' Firms). In Part 2 of the Code, the term "professional accountant" refers to the Members of the Institute in Business (CMAs in Business). In Parts 3, 4A and 4B of the Code, the term "professional accountant" refers to Members of the Institute in practice (CMAs in Practice) and their firms (CMAs' Firms).
CMA in Business	A member of the Institute working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.
CMA in Practice	Member of the Institute of Cost Accountants of India who is in practice in terms of section 2 of The Cost Accountants Act, 1959. The term "CMAs in Practice" is also used to refer to a firm of

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Term	Definition
	CMAs in practice.
Professional activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including cost accounting, accounting, auditing, tax, management consulting, and financial management.
Professional judgment	Professional judgement involves application of relevant training, knowledge and experience, within the context provided by standards on cost auditing, cost accounting standards and ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. This term is described in paragraph 120.5 A4 of the Code.
Professional services	Professional activities performed for clients.
Proposed accountant	A CMA in 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).
Public interest entity	For the purposes of Part 4A of the Code, an entity is a public interest entity when it falls within any of the following categories: (a) A listed entity; or (b) An entity: i) Defined by regulation or legislation as a public interest entity; or ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator. For purpose of this definition, it may be noted that Banks and Insurance Companies are to be considered as Public Interest Entities. Other entities might also be considered by the Firms to be

Term	Definition
	public interest entities.
Reasonable and informed third party test Reasonable and informed third party	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. These terms are described in paragraph 120.5 A9 of the Code.
Related entity	A related party as defined in the applicable law and regulations or as defined in the applicable cost / financial reporting framework.
Relative	Relative as defined in sub-section (77) of section 2 of Companies Act, 2013 read with rule 4 of the Companies (Specification of definitions details) Rules, 2014 is reproduced below: *"Relative with reference to any person, means anyone who is related to another, if—* *(i) they are members of a Hindu Undivided Family;* *(ii) they are husband and wife; or* *(iii) one person is related to the other in such manner as may be prescribed"* List of relatives in terms of clause (77) of section 2. *A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-* *(1) Father: Provided that the term Father includes step-father.* *(2) Mother: Provided that the term Mother includes the*

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Term	Definition
	stepmother. *(3) Son: Provided that the term Son includes the step-son.* *(4) Son's wife.* *(5) Daughter.* *(6) Daughter's husband.* *(7) Brother: Provided that the term Brother includes the step brother;* *(8) Sister: Provided that the term Sister includes the stepsister.*
Review client	An entity in respect of which a CMA in Practice or firm of CMAs conducts a review engagement.
Review engagement	An assurance engagement in which a CMA in practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to his attention that causes him to believe that the cost / financial statements are not prepared, in material respects, in accordance with an applicable cost / financial reporting framework.
Review team	(a) All members of the engagement team for the review engagement; and (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement

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Term	Definition
	quality review, for the engagement; and (c) Any other individuals within a network firm who can directly influence the outcome of the review engagement.
Safeguards	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. This term is described in paragraph 120.10 A2 of the Code.
Senior CMA	Senior CMA in Business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. It is further explained that the senior professional accountants refer to key managerial personnel. This term is described in paragraph 260.11 A1 of the Code.
Special purpose cost/financial statements	Cost/Financial statements prepared in accordance with a cost/financial reporting framework designed to meet the cost/financial information needs of specified users.
Subject matter information	The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.
Substantial harm	This term is described in paragraphs 260.5 A3 and 360.5 A3 of the Code.
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner- manager.

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Term	Definition
Threats	This term is described in paragraph 120.6 A3 of the Code and includes the following categories: • Self-interest 120.6 A3(a) • Self-review 120.6 A3(b) • Advocacy 120.6 A3(c) • Familiarity 120.6 A3(d) • Intimidation 120.6 A3(e)
Time-on period	This term is described in paragraph R540.5 of the Code.