

## **Code of Ethics for Professional Accountants – Revised June 2010**

A distinguishing mark of the accountancy profession is its **acceptance of the responsibility to act in the public interest.**

*Fundamental Principles*

- (a) *Integrity*
- (b) *Objectivity*
- (c) *Professional Competence and Due Care*
- (d) *Confidentiality*
- (e) *Professional Behavior*

The **conceptual framework approach** assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest.

When a professional accountant identifies **threats** to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the professional accountant shall determine whether appropriate **safeguards** are available and can be applied to eliminate the threats or reduce them to an acceptable level.

Threats fall into one or more of the following categories:

- (a) Self-interest threat
- (b) Self-review threat
- (c) Advocacy threat
- (d) Familiarity threat
- (e) Intimidation threat

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

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

- **Leadership** of the firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm that **establishes the expectation** that members of an assurance team will act in the **public interest.**
- **Policies and procedures** to implement and **monitor quality control of engagements.**

- Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or **decline** the relevant engagement.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Advising partners and professional staff of assurance clients and related entities from which independence is required.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

200.13 Examples of engagement-specific safeguards in the work environment include:

- Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of

independent directors, a professional regulatory body or another professional accountant.

- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Involving another firm to perform or re-perform part of the engagement.
- Rotating senior assurance team personnel.

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

- The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

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

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

240.7A Members should note that under the Prevention of Bribery Ordinance<sup>1a</sup>, there are provisions governing acceptance of any payment by someone who is in an agent-principal relationship with another person. For

example, if an agent receives payment from another for doing something or showing favour to another in relation to the affairs or business of the agent's principal (who may be the agent's employer or in some other relationships with the agent which involve trust and confidence), the permission of the principal should be obtained first before receiving the payment in order to avoid the risk of contravening the Prevention of Bribery Ordinance. The same principle applies to someone who is paying another person who is in an agent-principal relationship with some other person: the payer should ensure that the agent has obtained permission from his principal for receiving the payment.

### **Gifts and Hospitality**

260.1 A professional accountant in public practice, or an **immediate or close family** member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.

260.2 The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, a professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.

260.3 A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice shall not accept such an offer.

Immediate family                      A spouse (or equivalent) or dependent.

Close family                              A parent, child or sibling who is not an immediate family member.

## ***Independence of Mind & in Appearance***

### **Public Interest Entities**

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

- (a) All listed entities; and
- (b) Any entity (a) defined by regulation or legislation as a public interest entity or (b) 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 1b. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

290.26 Firms are required to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

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

### **Related Entities**

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

### **Documentation**

290.29 Documentation provides evidence of the professional accountant's judgments in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether

a firm considered a particular matter nor whether it is independent.

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

(a) When safeguards are required to reduce a threat to an acceptable level, the professional accountant shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level;  
and

(b) When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the professional accountant shall document the nature of the threat and the rationale for the conclusion.

Independence from the audit client is required both during the engagement period and the period covered by the financial statements.

### **Employment with an Audit Client**

290.134 Familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee 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, has been a member of the audit team or partner of the firm.

### ***Audit Clients that are Public Interest Entities***

290.139 Familiarity or intimidation threats are created when a key audit partner joins the audit client that is a public interest entity as:

- (a) A director or officer of the entity; or
- (b) An employee 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.

Independence would be deemed to be **compromised** unless, subsequent to the partner ceasing to be a key audit partner, the public interest entity had issued audited financial statements covering a period of not less than twelve months and the partner was not a member of the audit team with respect to the audit of those financial statements.

290.140 An intimidation threat is created when the individual who was the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit client that is a public interest entity as (a) an employee in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements or (b) a director or officer of the entity. Independence would be deemed to be **compromised** unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

### **Serving as a Director or Officer of an Audit Client**

290.146 If a partner or employee of the firm serves as a director or officer of an audit client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an audit client.

290.147 The position of Company Secretary has different implications in different jurisdictions. Duties may 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. Generally, this position is seen to imply a close association with the entity.

290.148 If a partner or employee of the firm or a network firm serves as Company Secretary for a financial statement audit client the self-review and advocacy threats created would generally be so significant that no safeguards could reduce the threat to an acceptable level unless the duties and functions undertaken are limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns, and are permitted by law.

290.149 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence, as long as client management makes all relevant decisions.

### **Provision of Non-assurance Services to Audit Clients**

290.156 Firms have traditionally provided to their audit clients a range of non-assurance services that are consistent with their skills and expertise.

Providing non-assurance services may, however, create threats to the independence of the firm or members of the audit team. The threats created are most often self-review, self-interest and advocacy threats.

### ***Management Responsibilities***

290.162 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

### ***Preparing Accounting Records and Financial Statements***

Audit Clients that are Public Interest Entities

290.172 Except in emergency situations, a firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

### ***Valuation Services***

### ***Taxation Services***

### ***Tax Planning and Other Tax Advisory Services***

### ***Assistance in the Resolution of Tax Disputes***

### ***Internal Audit Services***

### ***IT Systems Services***

### ***Litigation Support Services***

### ***Recruiting Services***

### **Key audit partner**

The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, other audit partners may include, for example, audit partners responsible for significant subsidiaries or divisions.



**Effective Date**

The Code is effective on 1 January 2011; early adoption is permitted. The Code is subject to the following transitional provisions:

*Public Interest Entities*

1. Section 290 of the Code contains additional independence provisions when the audit or review client is a public interest entity. The additional provisions that are applicable because of the new definition of a public interest entity or the guidance in paragraph 290.26 are effective on 1 January 2012. For partner rotation requirements, the transitional provisions contained in paragraphs 2 and 3 below apply

*Partner Rotation*

2. For a partner who is subject to the rotation provisions in paragraph 290.151 because the partner meets the definition of the new term —key audit partner,|| and the partner is neither the engagement partner nor the individual responsible for the engagement quality control review, the rotation provisions are effective for the audits or reviews of financial statements for years beginning on or after 15 December 2011. For example, in the case of an audit client with a calendar year-end, a key audit partner, who is neither the engagement partner nor the individual responsible for the engagement quality control review, who had served as a key audit partner for seven or more years (i.e., the audits of 2003 – 2010), would be required to rotate after serving for one more year as a key audit partner (i.e., after completing the 2011 audit).

3. For an engagement partner or an individual responsible for the engagement quality control review who immediately prior to assuming either of these roles served in another key audit partner role for the client, and who, at the beginning of the first fiscal year beginning on or after 15 December 2010, had served as the engagement partner or individual responsible for the engagement quality control review for six or fewer years, the rotation provisions are effective for the audits or reviews of financial statements for years beginning on or after 15 December 2011. For example, in the case of an audit client with a calendar year-end, a partner who had served the client in another key audit partner role for four years (i.e., the audits of 2002-2005) and subsequently as the engagement partner for five years (i.e., the audits of 2006-2010) would be required to rotate after serving for one more year as the engagement partner (i.e., after completing the 2011 audit).