



ONTARIO INSTITUTE MEMBER'S HANDBOOK CHANGE #46-A

The attached pages update your *ICAO Member's handbook* to include amendments approved by the Council to take effect September 28, 2012.

To bring your *ICAO Member's handbook* up to date, please remove the existing pages and replace with the new pages, as follows:

	<u>Withdraw page(s)</u>	<u>Insert new page(s)</u>
Title Page	Change No. 46	Change No. 46-A
Regulations	Regulation 6-1 Guidelines 1 to 25	Regulation 6-1 Guidelines 1 to 25
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Rules of Professional Conduct	5 00 to 5 46	5 00 to 5 48
Council Interpretations	6 00 to 6 165	6 00 to 6 168

When you have incorporated this release into your handbook, you may find it useful to keep this page as a record by filing it at the end of your *ICAO Member's handbook* binder.

A handwritten signature in black ink, appearing to read 'T.E. Warner', is written in a cursive style.

T.E. WARNER, BA, FCIS, P.Adm
VICE-PRESIDENT AND REGISTRAR
July 2012



ICAO

MEMBER'S HANDBOOK

Revised to September 28, 2012
including
Change No. 46-A

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**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF ONTARIO**

**REGULATION 6-1
STUDENT REGISTRATION**

**Adopted by the Council pursuant to the *Chartered Accountants Act, 2010*, and the
Bylaws on June 16, 2011, as amended on February 24, 2012.**

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**REGULATION 6-1
STUDENT REGISTRATION**

Adopted by the Council pursuant to the *Chartered Accountants Act, 2010*, and the Bylaws on June 16, 2011, as amended on February 24, 2012.

Definitions

1. In this regulation, words have the same meaning as they do in the Act and bylaws and:
 - 1.1 “CA Training Office” means:
 - 1.1.1 a practising office or unit, approved for the training of students under Regulation 10-1, and includes:
 - 1.1.1.1 a single office of a member, firm or professional corporation;
 - 1.1.1.2 two or more offices of a member, firm or professional corporation that are a single practising unit for the purpose of being designated for student training;
 - 1.1.1.3 two or more offices of two or more members, firms or professional corporations which have formed an association acceptable to the Institute for the purpose of being designated for training students;
 - 1.1.2 an organization as defined in the Bylaws of the Institute that has been approved by the Institute for the training of students in accordance with the policy adopted by the Council.
 - 1.2 “credit hour” means each classroom or instruction hour per week of a one-semester course of academic learning, or the equivalent, that is recognized by the degree-granting institution of higher education that offers it as a degree-credit course; typically, a one-semester university course constitutes three credit hours and one semester means a course of academic learning that has a term or duration of approximately fifteen (15) to eighteen (18) weeks;
 - 1.3 “degree-credit course” means a course of academic study and evaluation that is recognized for credit by the degree-granting institution towards the completion of a university degree or equivalent that is awarded by that degree-granting institution of higher education and that is successfully completed through enrolment in or registration with such institution;
 - 1.4 “degree-granting institution” means an educational institution such as a university recognized in the International Handbook of Universities as published by the International Association of Universities, which provides post-secondary academic education or post-secondary academic institution that is a member of the Association of Universities and Colleges of Canada or the Association of Canadian Community Colleges,

or the equivalent national association in another country that is fully accredited by the appropriate regulatory authorities in Canada or the other country to grant degrees. New universities or colleges not yet eligible for membership in the associations noted above or listed in the International Handbook of Universities may also be considered if they are established to the satisfaction of the Registrar to be substantially equivalent to an institutional member of such associations. The degree-granting institution must be established or accredited by a statute or other governmental approval and the institution must offer a program or programs of academic study beyond the general and compulsory primary and secondary levels of schooling required by the government of the country, state, or province as the case may be;

- 1.5 “university degree” means:
- 1.5.1 a four-year undergraduate degree or other equivalent indicator of academic achievement comprising 120 credit hours or equivalent:
or
 - 1.5.2 a post-graduate degree or other equivalent indicator of academic achievement beyond the level of an undergraduate degree or equivalent, that is granted by a degree-granting institution.
- 1.6 “Uniform Evaluation” means the qualifying evaluation prepared by the Board of Evaluators of the CICA Qualifications Committee on behalf of the provincial institutes.

Registration

2. The Registrar shall register as a Student with the Institute anyone who:
- 2.1 makes an application in Form 6-1A and pays the prescribed fee;
 - 2.2 provides proof of identity, including legal name, satisfactory to the Registrar;
 - 2.3 provides evidence of good character satisfactory to the Registrar;
 - 2.4 has access to a computer that meets the minimum configuration requirements as set by the Institute from time to time, including Internet access and a valid email address, unless exempted from this requirement by the Registrar;
 - 2.5 meets the requirements for one of the registration categories as set out in section 5;
 - 2.6 meets the employment requirements as set out in this regulation or by the Council from time to time; and

- 2.7 provides all information and produces all documents and other materials as requested by the Registrar or, in extraordinary circumstances where such documentation is not available, provides alternative proof satisfactory to the Registrar.
3. It is the responsibility of the Student to ensure the application is complete and accurate, and is received by the Registrar.
4. In making any decision pursuant to this regulation, the Registrar shall act in accord with the Act, Bylaws, and regulations of the Institute and shall be guided by the policies and guidelines, if any, passed by the Council from time to time.

Registration Categories

5. An individual may register in one of the following categories:
 - 5.1 **University Graduate** – an individual who has completed all the academic requirements for the conferral of a university degree;
 - 5.2 **Co-operative Degree Program** – an individual who is enrolled in a co-operative degree program approved by the Council (Schedule A);
 - 5.3 **Accredited University Program** – an individual who is enrolled in an accredited university program approved by the Council (Schedule B);
 - 5.4 **Other Ontario Accounting Designation** – an individual who has a university degree conferred and is a member in good standing with the Certified General Accountants Association of Ontario or the Society of Management Accountants of Ontario;
 - 5.5 **Accounting Body Outside Canada** – an individual who:
 - 5.5.1 is a member in good standing with either a professional accounting body outside Canada that is a Member Body in good standing of the International Federation of Accountants at the date of the individual's application for registration or a professional or regulatory body or authority for accountants or auditors in a country other than Canada that has been established by statute to qualify, certify, regulate, license or authorize individuals to practise as accountants or auditors in that country;
 - 5.5.2 provides evidence satisfactory to the Registrar of the completion of a minimum three years of accounting experience meeting the guidelines established by the Council from time to time; and
 - 5.5.3 is not eligible to register as a Student pursuant to section 5.6 of this regulation;
 - 5.6 **Accounting Body Outside Canada – Specified** – an individual who is a member in good standing with an accounting body listed in Schedule C, and who meets the conditions for registration contained in a

memorandum of understanding or agreement between that body and the Institute;

- 5.7 **Transfer** – an individual registered currently and in good standing with another provincial institute who:
- 5.7.1 has a university degree conferred;
 - 5.7.2 has completed, to the Registrar’s satisfaction, some or all of the Practical Experience Requirement, which has been accepted by the provincial institute with which the student was registered;
 - 5.7.3 has not attempted the UFE; and
 - 5.7.4 within three months of the date of registration with the Institute, discontinues or terminates registration with any other provincial institute;
- 5.8 **Transfer – Quebec** – an individual registered currently and in good standing with the Ordre des comptables agréés du Québec who:
- 5.8.1 has a university degree conferred; and
 - 5.8.2 has successfully completed the UFE while so registered.
- 5.9 **Conditional** – an individual who is:
- 5.9.1 attending a degree-granting institution in a program leading to a university degree on a part-time basis, while employed in a CA Training Office on a full-time basis; or
 - 5.9.2 attending a degree-granting institution in a program leading to a university degree on a full-time basis, while employed in a CA Training Office on a part-time basis;
- 5.10 **Mature** – an individual who:
- 5.10.1 is at least 25 years of age;
 - 5.10.2 has completed no more than two years or sixty credits at a degree-granting institution;
 - 5.10.3 is enrolled at a degree-granting institution in courses that qualify to fulfill the credit hour requirement;
 - 5.10.4 has at least three years work experience in accounting, business or other relevant area satisfactory to the Registrar; and
 - 5.10.5 satisfies the Registrar that the individual does not meet the requirements of any other category of student registration as set out in this section.

Amended February 24, 2012

6. A Student may only register in one registration category.
7. Notwithstanding section 6, a Student may register in both the Co-operative Degree Program and Accredited University Program categories if the Student meets the requirements of each of those categories.

Period of Registration

8. The date of registration shall be the earlier of the date upon which the individual:
 - 8.1 provides proof of compliance with all the requirements of section 2 of this regulation; or
 - 8.2 commences employment with a CA Training Office, provided that:
 - 8.2.1 proof of such employment satisfactory to the Registrar is received within three months of the date set out in subsection 8.1; and
 - 8.2.2 the date of registration shall not be any earlier than three months prior to the date the individual meets the requirements of subsection 8.1.
9. A Student shall renew registration on an annual basis by making an application for renewal in Form 6-1B and paying the prescribed fee, and providing all information and producing all documents and other materials as requested by the Registrar.
10. The Registrar shall suspend the registration of any Student who fails to comply with any provision of this regulation, or of the bylaws or regulations, and shall deregister a Student as required by the bylaws.
11. The Registrar shall deregister any Student whose registration has been suspended for a cumulative period of one year.
12. A Student who has been deregistered pursuant to section 11 may apply for re-registration upon complying with the requirements for registration in effect at the time of that application.
13. The Registrar shall deregister a Student on the tenth anniversary of that Student's initial date of registration or the date of that Student's fourth unsuccessful attempt of the UFE, whichever occurs first.
14. A Student who has been deregistered pursuant to section 13 shall not be reregistered except at the discretion of, and on such terms and conditions deemed appropriate by, the Registrar.

Completion of Program

15. Unless otherwise specified in this regulation, every Student shall successfully complete the following during the period of registration in good standing:

- 15.1 Education Requirement;
- 15.2 Professional Program Requirement; and
- 15.3 Practical Experience Requirement.

Education Requirement

- 16. Unless otherwise specified in this regulation or not required by the category of registration, all Students shall:
 - 16.1 provide proof satisfactory to the Registrar of the conferral of a university degree at the time of registration; and
 - 16.2 complete the credit hour requirement.
- 17. A Student registering as a University Graduate shall provide proof satisfactory to the Registrar of:
 - 17.1 the completion of the academic requirements for a university degree; and
 - 17.2 within six months of the date of registration, conferral of that degree.
- 18. A Student registering as a Co-operative Degree Program, Accredited University Program or Conditional Student shall provide proof satisfactory to the Registrar:
 - 18.1 at the time of registration, enrolment in an eligible program leading to the conferral of a university degree; and
 - 18.2 within six months of the completion of the academic requirements for that degree, conferral of the degree.
- 19. Unless otherwise exempted by this regulation, all Students shall complete, either prior to or while registered in good standing as a Student, fifty-one (51) credit hours in courses acceptable to the Registrar, as follows, and shall provide proof satisfactory to the Registrar of completion of the credit hours:

Courses	Number of credit hours
Financial accounting (introductory, intermediate and advanced)	15
Cost and management accounting	6
Advanced accounting elective	3
Auditing	9
Canadian Taxation (personal & corporate)	6

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Courses	Number of credit hours
Business information systems	3
Finance/Financial management	3
Economics	3
Canadian Business Law	3

20. To qualify towards the credit hour requirement:

- 20.1 the courses in Canadian Business Law and Canadian Taxation must have been taken at a degree-granting institution in Canada;
- 20.2 only one of the courses for advanced financial accounting and the advanced accounting elective may have been taken at a degree-granting institution outside Canada;
- 20.3 courses taken at a degree-granting institution, subject to the restrictions set out in this section, will be recognized for the credit hour requirement if they are found to be equivalent in content to those at a degree-granting institution in Canada;
- 20.4 a maximum of twenty-four (24) credit hours may be fulfilled through college diploma transfer credit courses that:
 - 20.4.1 meet the Institute's requirements;
 - 20.4.2 are recognized by a university under an articulation agreement; and
 - 20.4.3 are in the following subject areas and do not exceed the maximum credit recognition in each area:

Subject area	Credit hours
Introductory Financial Accounting	3
Introductory Cost and Management Accounting	3
Introductory Auditing	3
Taxation – Personal	3
Business/Management Information Systems	3
Corporate Finance/Financial Management	3
Economics (Macro and Micro)	3
Canadian Business Law	3

- 20.5 a grade point average of B- (B in the University of Toronto MMPA program) or 70.0% or higher, or, if another marking system is used by the institution at which the credit is obtained, the equivalent at the determination of the Registrar, must be obtained overall in the courses in the credit hour requirement.

Amended February 24, 2012

21. Students in the Accredited University Program registration category are deemed to have met the credit hour requirement, provided they meet the provisions of subsection 20.5.
22. Students in the Transfer – Quebec registration category are exempt from the credit hour requirement.
23. Students in the Accounting Body Outside Canada registration category are exempt from the credit hour requirement except for the requirement to pass an approved course in Canadian Business Law.
24. Students in the Accounting Body Outside Canada – Specified registration category may be exempt from the credit hour requirement, pursuant to the memorandum of understanding or agreement between the accounting body and the Institute.

Professional Program Requirement

25. Unless otherwise specified in this regulation, all Students shall register for and successfully complete, while registered in good standing, all stages of the Professional Program, consisting of:
- 25.1 Staff Training Program (STP);
- 25.2 Core Knowledge Examination (CKE);
- 25.3 School of Accountancy (SOA); and
- 25.4 Uniform Evaluation (UFE).
26. A Student shall complete, within sixteen months of the date of registration, the STP or a similar program that has been approved by the Institute and shall provide proof of completion satisfactory to the Registrar in Form 6-1B and pay any prescribed fee.

Amended February 24, 2012

27. Notwithstanding section 26, Students in the Other Ontario Accounting Designation, Accounting Body Outside Canada, or Transfer – Quebec registration categories are exempt from the requirement of the STP.
28. Notwithstanding section 26, a Student in the Accounting Body Outside Canada – Specified registration category may be exempt from the requirement to complete the STP, pursuant to the memorandum of understanding or agreement between the accounting body and the Institute.

29. A Student is eligible to register for and write the CKE if the Student:
- 29.1 makes an application in Form 6-1C and pays the prescribed fee;
 - 29.2 has completed the Education Requirement of this regulation and either:
 - 29.2.1 provided proof of that completion as set out in this regulation, or
 - 29.2.2 if proof of completion is not available at the time of registration or writing, signs a declaration that the requirement has been completed.
30. Students in the Transfer – Quebec registration category are exempt from the requirement to complete the CKE, as are Students in the Accredited University Program registration category who obtained their MAcc from the University of Waterloo.
31. Students in the Accounting Body Outside Canada – Specified registration category may be exempt from the requirement to complete the CKE, pursuant to the memorandum of understanding or agreement between the accounting body and the Institute.
32. Students in the Other Ontario Accounting Designation or Accounting Body Outside Canada registration category may be exempted, on application in Form 6-1R, from the requirement to complete the CKE, if the Registrar, in his discretion, finds the Student's experience and education meets or exceeds the degree of competence required by the CKE.
33. A Student is eligible to register for and complete the SOA if the Student:
- 33.1 makes an application in Form 6-1D and pays the prescribed fee;
 - 33.2 has completed the Education Requirement of this regulation, including providing proof of that completion satisfactory to the Registrar;
 - 33.3 has, unless exempted by this regulation, obtained a satisfactory result in the CKE within the prior three years; and
 - 33.4 has provided all information and documents as requested by the Registrar.
34. A Student who wrote the CKE as permitted by clause 29.2.2 of this regulation shall not receive the results of the SOA until proof of completion of the Education Requirement as set out in clause 29.2.1 has been received by the Registrar and, if proof is not received within one month of the date of the examination, the results shall be discarded without being made known to the Student, and the results of the CKE shall be discarded, and the Student shall not thereafter be permitted to register for the CKE without complying with clause 29.2.1 of this regulation.
35. Students in the Transfer – Quebec registration category are exempt from the requirement to complete the SOA, as are Students in the Accredited University

- Program registration category who obtained their MAcc from the University of Waterloo.
36. Students in the Accounting Body Outside Canada – Specified registration category may be exempt from the requirement to complete the SOA, pursuant to the memorandum of understanding or agreement between the accounting body and the Institute.
37. Students in the Other Ontario Accounting Designation or Accounting Body Outside Canada registration category may be exempted, on application in Form 6-1R, from the requirement to complete the SOA, if the Registrar, in his discretion, finds the Student's experience and education is of such an extraordinary and extensive nature that it meets or exceeds the degree of competence required by the SOA.
38. A Student is eligible to register for and write the UFE if the Student:
- 38.1 makes an application in Form 6-1E and pays the prescribed fee;
 - 38.2 has completed the Education Requirement of this regulation, including providing proof of that completion satisfactory to the Registrar;
 - 38.3 has, unless exempted by this regulation, obtained a satisfactory result in the CKE;
 - 38.4 has, unless exempted by this regulation, obtained a satisfactory result in the SOA; and
 - 38.5 has provided all information and documents requested by the Registrar.
39. No Student shall be exempted from the requirement to pass the UFE.
40. A Student in the Transfer – Quebec registration category may pass the UFE prior to registration.
41. A Student may request special arrangements for any examination, or special consideration due to circumstances arising during an examination, in accordance with the policies of the Council from time to time.

Employment and Practical Experience Requirement

42. Unless altered or suspended by Council resolution, every Student shall, at the time of registration:
- 42.1 be presently employed with a CA Training Office;
 - 42.2 have accepted an offer of full-time employment in a CA Training Office to commence no later than twelve months following the date of registration;
or

- 42.3 be employed on a part-time or other short-term basis with a CA Training Office while being enrolled in a university degree program, provided that such employment arrangement is acceptable to the Institute for the purpose of fulfilling the prescribed practical experience requirement.
43. Every Student shall complete a period of three years Practical Experience, less any period determined by the Registrar to have been completed prior to registration.
44. Notwithstanding section 42, Students who are determined to have completed their Practical Experience Requirement are exempt from the requirement for employment.
45. The three years of Practical Experience shall include study leave, attending training programs, vacation, and leaves of absence, as provided in the policies of the Council from time to time, but shall exclude any period of employment completed without compliance with section 26 of this regulation.
46. The three years of Practical Experience is calculated on the basis of full-time employment, and part-time employment shall be considered on a fractional basis.
47. The Practical Experience Requirement shall be completed at a CA Training Office.
48. Notwithstanding section 47, a Student may complete up to one-third (1/3) of the Practical Experience Requirement through one or more secondments if the secondment meets the requirements of the policies passed by the Council from time to time.
49. Students wishing to obtain a public accounting licence upon membership in the Institute must comply with the requirements of Regulation 9-1 – Public Accounting Licensing.
50. Students in the Co-operative Degree Program registration category may only complete up to the maximum number of months of Practical Experience set out in Schedule A prior to conferral of the degree, and any further employment prior to that conferral will not be eligible towards the Practical Experience Requirement.
51. Students in the Other Ontario Accounting Designation, Accounting Body Outside Canada, Transfer, and Transfer – Quebec registration categories may apply to the Registrar in Form 6-1R for a determination that some or all of the Student's Practical Experience Requirement has been completed prior to registration.
52. Students in the Accounting Body Outside Canada – Specified registration category shall complete the Practical Experience Requirement as set out in the memorandum of understanding or agreement between the accounting body and the Institute.
53. The *CA Practical Experience Requirements, 2010*, or any successor document approved by the Council shall be considered to be a policy passed by the Council for the completion of the Practical Experience Requirement, except where that

document is inconsistent with any bylaw, regulation, policy, or guideline passed by the Council from time to time.

54. Notwithstanding subsection 8.2, and subject to section 51, the Registrar may, only in exceptional and unique circumstances, recognize a greater amount of pre-registration employment as part of the Practical Experience Requirement, but in no circumstances shall more than eight months be recognized.

Appeals

55. A decision of the Registrar not to register or reregister an individual as a Student or to deregister a Student may be appealed by the individual or Student to the Membership Committee.
56. The parties to an appeal are the individual appealing and the Registrar.
57. The appeal shall be conducted in accordance with the Rules of Practice and Procedure.
58. The decision of the Membership Committee is final.

SCHEDULE A

UNIVERSITY CO-OPERATIVE DEGREE PROGRAMS

University	Degree program	Maximum months of co-op work term experience
Algoma	Bachelor of Business Administration	20
Brock	Bachelor of Business Administration	12
Brock	Bachelor of Accounting	20
Carleton	Bachelor of Commerce	16
Dalhousie	Bachelor of Commerce	12
McMaster	Bachelor of Commerce (Internship)	16
McMaster	Master of Business Administration	12
Ottawa	Honours Bachelor of Commerce in Accounting	12
Redeemer	Bachelor of Arts, Honours Business Major-Accounting	16
Toronto (Mississauga)	Masters in Management and Professional Accounting	8
Toronto (Scarborough)	Bachelor of Business Administration (Program in Management)	12
Waterloo	Bachelor of Accounting and Financial Management (Honours)	16
Waterloo	Bachelor of Mathematics (Chartered Accountancy)	16
Waterloo	Bachelor of Science (Honours Chartered Accountancy)	16
Wilfrid Laurier/ Waterloo	Honours Bachelor of Business Administration (Laurier)/Honours Bachelor of Mathematics (Waterloo) <i>Effective for students graduating after Dec 31, 2010</i>	16
Wilfrid Laurier/ Waterloo	Honours Bachelor of Business Administration (Laurier)/Bachelor of Computer Science (Waterloo) <i>Effective for students graduating after Dec 31, 2010</i>	16

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Wilfrid Laurier	Honours Bachelor of Business Administration	12
Wilfrid Laurier	Honours Bachelor of Arts (Economics)	12
Wilfrid Laurier	Honours Bachelor of Business Administration/ Bachelor of Science in Computer Science <i>Effective for students graduating after Dec 31, 2010</i>	16
Wilfrid Laurier	Honours Bachelor of Business Administration/ Bachelor of Science in Computing and Computer Electronics <i>Effective for students graduating after Dec 31, 2010</i>	16
Wilfrid Laurier	Honours Bachelor of Business Administration/ Bachelor of Arts in Financial Mathematics <i>Effective for students graduating after Dec 31, 2010</i>	16
Windsor	Bachelor of Commerce	16

SCHEDULE B

UNIVERSITIES WITH ACCREDITED PROGRAMS/STREAMS

Brock University – Bachelor of Accounting, Option A, regular and co-op.

McMaster University – Master of Business Administration and the Bachelor of Commerce (Honours), regular and internship, both inclusive of the Courses for Professional Designation needed to complete the 51 credit hours.

Queen's University – Bachelor of Commerce, Accounting stream, in combination with the Graduate Diploma in Accounting.

University of Toronto – Mississauga, Master of Management and Professional Accounting (MMPA), and the Bachelor of Commerce, Accounting Specialist stream.

University of Toronto – Rotman Commerce, St. George, Bachelor of Commerce, Accounting Specialist stream.

University of Western Ontario – Honours Bachelor of Business Administration, Accounting stream at the Richard Ivey School of Business, inclusive of the Diploma in Accounting.

Wilfrid Laurier University – Honours Bachelor of Business Administration, regular and co-op, and Bachelor of Arts in Economics and Accounting, regular and co-op, both inclusive of the post-degree undergraduate courses needed to complete the 51 credit hours.

York University – Bachelor of Business Administration, Accounting stream at the Schulich School of Business.

University of Waterloo – Master of Accounting (MAcc).

Wilfrid Laurier University / University of Waterloo Double Degree Program – Honours Bachelor of Business Administration (Laurier) / Honours Bachelor of Mathematics (Waterloo), regular and co-op.

Wilfrid Laurier University / University of Waterloo Double Degree Program – Honours Bachelor of Business Administration (Laurier) / Bachelor of Computer Science (Waterloo), regular and co-op.

SCHEDULE C

SPECIFIED ACCOUNTING BODIES

- The Institute of Chartered Accountants of India
- The Institute of Chartered Accountants of Pakistan

GUIDELINES:

**ASSESSMENT OF COMPETENCIES OF STUDENTS:
Members of Professional Accounting Bodies Outside of Canada
Members of the Certified General Accountants Association of Ontario
Members of Certified Management Accountants of Ontario**

Passed by the Council, June 16, 2011

INTRODUCTION

These Guidelines apply to Students registered in the following categories pursuant to Regulation 6-1:

- Accounting Body Outside Canada (section 5.5);
- Accounting Body Outside Canada – Specified (section 5.6).

These Guidelines, except for the provisions regarding the Canadian Business Law Course, also apply to Students registered in the Other Ontario Accounting Designation category (section 5.4).

EXEMPTION FROM CANADIAN BUSINESS LAW COURSE REQUIREMENT

A member of an Accounting Body Outside Canada ordinarily will not have completed a course in Canadian business law as part of their university degree or professional accounting body's qualification program.

However, a Student from an Accounting Body Outside Canada who has completed one or more university degree-credit course(s) in Canadian business law may apply for an exemption. Alternatively, the Student may apply for an exemption from this requirement if the Student believes the required knowledge of Canadian business law has been acquired, through the Student's professional qualification(s) and accounting experience. For example, working in a role administering contracts in Canada may demonstrate an understanding and knowledge of one area of Canadian business law.

Exemption based on course equivalence

The Student must provide a copy of the official, certified transcript or other certified document or documents confirming successful completion of the course(s) and the detailed course description(s) listing or specifying the topics or subject areas covered in course(s), all of which must be clearly identifiable as being issued or published by the degree-granting institution.

Overall, the course should provide an introduction to, and a general understanding of the following topics:

Law of Torts – scope – (intentional torts, negligence, professional liability and other torts).

Law of Contracts – definition, role, formation – (offer/acceptance, consideration, intention to create legal relation, capacity, legality, certainty of terms);

- Grounds upon which a contract may be impeached – mistake, misrepresentation, undue influence, duress;
- The requirement of writing – statute of frauds, essentials of a written memorandum, doctrine of past performance;
- Interpretation of contracts – relationship between formation and interpretation, interpretation of excess terms parol evidence rule, implied terms as a method of interpretation;
- Privity of contract and the assignment of contractual rights – privity, novation, vicarious performance, exceptions to the privity of contract rule, nature of an assignment of rights, equitable assignments, statutory assignments, negotiable instruments;
- Discharge of contracts – various ways, by performance, by agreement, by frustration, by operation of law;
- Effect of breach – implications, repudiation and failure of performance; and
- Remedies of breach – types, damages, equitable remedies, quantum meruit.

Bailment and Introduction to Agency – definition;

- Classes – benefit of bailor, benefit of bailee, benefit of both;
- Duty and care of bailor and bailee;
- Remedies of bailee and bailor – storage, transportation and finders;
- Contractual relationship between principal and agent;
- Contractual relationship between principal and third parties – express authority, apparent authority (Estoppel), ratification;
- Duties of principal and third parties; and
- Liability of agent to principal and third parties.

Law of Real Property and Mortgages of Land

- Interests in land – freehold, leasehold;
- Joint ownership of estates;
- Other interests in land – easements, required evidence;
- Possessory rights in land – limitations act, required evidence;
- Title to real property – deed or transfer, will or descent, possessory title, escheat of forfeiture;
- Government registrations of ownership – registry and land title systems;
- Conveyance of real property – agreement of purchase and sale;
- Restrictions on land use – government, common law; and
- Mortgages of land – concept of mortgage, rights of mortgagee and mortgagor under common law and equity, mortgages remedy of sale upon default, second mortgages.

Partnerships, Corporations and the Management and Operation of a Corporation

- Partnership – partnership act, nature, agreement, limited partnership, limited liability partnership; and
- Corporations and the management of corporations – nature of corporations, methods of incorporation, governance, liability of directors, shareholders' agreements.

Exemption based on experience equivalence

The Student must provide a detailed job description(s) including information as to how the responsibilities carried out or functions performed in the position(s) fulfilled the knowledge requirements outlined above.

EXEMPTION FROM THE PROFESSIONAL PROGRAM REQUIREMENTS

The Registrar shall review the previous education, professional qualification(s) and accounting experience of a Student seeking exemption from Professional Program requirements to determine whether, taken as a whole, they establish that the Student has demonstrated, on a substantial equivalency basis, the required breadth and depth of competency development at the levels of proficiency required of an entry-level CA in Ontario, as specified in *The UFE Candidates' Competency Map*.

The Registrar's determination of whether a Student qualifies to receive additional exemption(s) is to be competency-based, meaning the previous education, professional education and previously acquired accounting experience of a Student are to be considered both quantitatively and qualitatively when assessed (measured) against the competencies and the respective proficiency levels for an entry level CA in Ontario, as specified in *The UFE Candidates' Competency Map*. The substantial equivalency basis for determining whether a Student qualifies for additional exemptions recognizes that the specific competencies required for membership in the particular accounting body outside Canada and acquired by the Student as a result of post-qualification accounting experience may not match precisely with the competencies set out in *The UFE Candidates' Competency Map*.

The determination to be made by the Registrar is whether a Student has acquired as a result of his or her previous education, professional qualification(s) and previously acquired professional accounting experience, the depth and breadth of competency development and the levels of proficiency for the competencies that a candidate must demonstrate at the time of writing the Uniform Evaluation (UFE). The Student should ordinarily have completed in total more than three years of professional accounting experience, including experience obtained subsequent to admission to membership in the accounting body outside Canada. In addition, the Student should have obtained such professional accounting experience in positions that enabled the Student to progress to successively more senior positions and/or in respect of which the Student demonstrated progressively higher levels of proficiency as well as greater breadth and depth of competency development.

The Registrar may grant one or more of the exemptions sought, or not grant any exemptions, based on his or her determination of the extent to which a Student has fulfilled the depth and breadth of competency development at the required levels of proficiency.

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The levels of proficiency – the degree or expertise an individual is expected to exhibit in a competency -- as specified in *The UFE Candidates' Competency Map* are as follows:

Level C: The individual describes accurately the task or role constituting the competency, the possible evidence of performance, the significance of the competency, and the types of circumstances in which it would arise or be applied in normal circumstances. Proficiency at Level C is demonstrated when the individual explains, summarizes, gives examples, depicts, interprets, and paraphrases, among other things, the professional skills and underlying knowledge required by the competency.

Level B: The individual demonstrates without prompting from others an understanding of the task and the required professional skills including basic quantitative and qualitative analysis, but not necessarily the ability to successfully complete the task without adequate support or supervision in normal circumstances. Proficiency at Level B is demonstrated when the nature of the problem is identified. The issues related to the problem are often evaluated, analyzed, etc. on a preliminary basis. That is, the work requires the review of more senior personnel to ensure its completeness and accuracy. Any requirement for the involvement of personnel with special expertise necessary to complete all aspects of the task is identified. A preliminary recommendation is often made. This level of proficiency includes Level C proficiency.

Level A: The individual completes all elements of a specified task successfully in normal circumstances. Proficiency at Level A is demonstrated when the problem is clearly identified and thoroughly analyzed or when a situation is evaluated and useful recommendations are made and/or implemented. The individual is responsible for the work whether it is completed solely by an individual (a CA) or by a team of individuals (team of CAs). This level of proficiency includes Level B and Level C proficiencies.

Using substantial equivalency as the criterion, it is not required that a Student must have demonstrated the levels of proficiency for each of the specific competencies within each competency area in order to be granted the exemptions sought. Accordingly, the assessment of whether a Student has attained the proficiency level(s) in any one or more of the competency areas should be made with reference to the overall proficiency level for the competency area, rather than proficiency levels for each specific competency within the competency area. The overall proficiency level for each competency area that should be attained to demonstrate readiness to write the UFE is as follows:

Performance Measurement and Reporting	Level A
Assurance	Level A
Taxation	Level B
Governance, Strategy and Risk Management	Level B
Management Decision-Making	Level B

Student Self-Assessment

A Student requesting an exemption from the CKE, the SOA, or both, must provide the Registrar with a written self-assessment describing in detail how the Student believes the competencies set out in *The UFE Candidates' Competency Map* have been met. The self-assessment should take into account that the Professional Program curriculum provides for the development and enhancement of the required competencies through integration and application of technical knowledge. In that regard, the Student should note that the SOA uses case studies addressing professional-level competencies and reflecting real business scenarios likely to be encountered in practice as a Chartered Accountant. In addition to the specific competencies set out in *The UFE Candidates' Competency Map*, a Student must demonstrate the pervasive qualities and skills fundamental to a Chartered Accountant: Ethical Behaviour and Professionalism, Personal Attributes and Professional Skills. A *Mapping of Experience to Specific Competencies* document is available from the Institute for use by Students in completing the self-assessment.

EXEMPTION FROM PRESCRIBED PRACTICAL EXPERIENCE REQUIREMENTS

A Student may request exemptions from some or all of the requirement to complete a three-year period of practical experience in a CA Training Office. The determination to be made by the Registrar upon review of such request is whether the Student has acquired as a result of his or her professional qualification(s) and previously acquired experience in accounting, the *depth* and *breadth* of competency development required for the entry-level CA at the time of admission to membership in the Institute, as established by the document entitled, *Prescribed Practical Experience 2010*, or any successor document.

The Registrar's determination shall be based upon an assessment of the totality of the Student's previous professional accounting experience completed for the purpose of qualifying for admission to membership in the particular accounting body and subsequent to admission to membership in that body. The assessment should take into account:

- the duration of the period(s) of accounting experience (i.e. the number of months or years);
- the nature of the place(s) of employment or practice in which the accounting experience was obtained;
- the position(s) held by the Student; and
- the progression of the Student's career in professional accounting.

To meet the *depth* and *breadth* of competency development required for the entry-level CA at the time of admission to membership in the Institute, the Student must demonstrate to the satisfaction of the Registrar that the Student meets the following minimum requirements:

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- *Depth of experience* -- the opportunity to gain sufficient direct working experience in *all* of the specific competencies of *any one* of the six competency areas (referred to as the area of depth):
 - Performance Measurement and Reporting
 - Assurance
 - Taxation
 - Governance, Strategy and Risk Management
 - Management Decision-Making
 - Finance.

For the majority of the specific competencies, the Student is expected to demonstrate Level 2 proficiency. In addition, the Student is expected to demonstrate an awareness of emerging topics in their area of depth, either independently or as part of a team, with little direction or supervision.

- *Breadth of experience* -- the opportunity to gain sufficient direct working experience in at least half of the competencies in TWO additional areas of competency (referred to as areas of breadth) and demonstrate the ability to work at Level 2 proficiency in at least half of those competencies. If the Student's area of depth is not Performance Measurement and Reporting or Assurance, then one of the two areas of breadth must be Performance Measurement and Reporting and must provide the opportunity to gain sufficient direct working experience in the three competencies highlighted in Appendix 1 of *the Practical Experience Requirements 2010* or any successor document approved by the Council, and demonstrate the ability to work at Level 2 proficiency in all three of competencies.
- Experience in all of the *Pervasive Qualities and Skills*, with the clear expectation that the Student demonstrates at all times the Ethical Behaviour and Professionalism, strong Personal Attributes and Professional Skills expected of the CA.

Levels of proficiency for qualifying practical experience are:

Level 1 (works under supervision): Has the basic knowledge and skill required to complete the task assigned but does not complete the task without supervision or assume responsibility for its execution. Requires supervision and direction in completing the tasks as he or she begins applying education to practice.

Level 2 (works independently): Can apply the underlying knowledge and skill in a practical setting and is able to complete tasks independently or as part of a team with minimal direction or supervision. Assumes responsibility for execution of the task and performs all work with diligence and due care. Treats each situation as an opportunity to further develop professional judgement and/or expand his or her knowledge base.

Duration of professional accounting experience

The duration of professional accounting experience required for admission to membership in the Institute is a minimum term of three years of experience acceptable to the Institute. A Student who has not obtained at least three years of previous professional accounting experience acceptable to the Institute is required to fulfill a period of experience in accounting as prescribed by the Registrar such that the Student

will have obtained by the date of admission to membership in the Institute an amount of acceptable accounting experience that in aggregate is at least three years in duration.

Nature of the place(s) of employment or practice

The factors that should be considered by the Registrar in respect of the *nature of the place of employment or practice* are:

- As applicable,
 - The nature or line of business (for example, financial services, manufacturing, natural resources, retailing, information technology) and examples of the major clients, customers or recipients of the products or services, or
 - The nature of the professional services provided, including whether the services were public accounting or related areas (for example, assurance/attestation, taxation, advisory services) and examples of the major clients, customers or recipients of the products or services
- The size of the business or practice, with reference to such matters as total number of staff, number of partners, total annual revenues or budget
- The corporate structure (e.g. for-profit corporation, not-for-profit corporation, public sector/governmental organization, academic institution, partnership, proprietorship) and in respect of a corporate entity, whether it is/was a publicly listed or publicly traded entity or a privately owned/not publicly listed entity.

The position(s) held by the Student

In respect of the *positions(s) held by the Student*, the Registrar should consider:

- the title of each position held;
- the level or seniority of the position within the place of employment or practice, with reference to such matters as to whom (position) the Student directly reported or was accountable and the placement of such position within the overall management or governance structure;
- the breadth and complexity of the responsibilities assigned to the Student in the position held;
- the breadth and depth of competency development during the period in which the Student held the position.

The progression of the Student's career in professional accounting

Position-specific indicators that should be considered by the Registrar when determining a Student's progression through his or her career in professional accounting include demonstration of work functions or the provision of professional services in defined positions that:

- require increasing competency development;
- require the ability of the Student to handle increasingly complex tasks;
- involve increasing levels of responsibility;
- provide increased ability and opportunity to supervise, manage and mentor others and decreased level of supervision of the Student throughout his or her career path, which may be measured by
 - number of supervisors;
 - number of direct reports;
 - changes in position or job titles;
 - changes to job responsibilities and accountabilities;

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- provide opportunities for the Student to learn from supervisors who are deemed experts in their field (exposed to or mentored by other professionals).

Progression to successively more senior positions and/or demonstration of progressively higher levels of proficiency over the course of a Student's employment or practice with a particular entity or throughout the Student's total period(s) of accounting experience should also ordinarily indicate greater breadth and depth of competency development. A Student who has achieved through their previous employment or practice a position or level as a partner, senior executive, director or officer should ordinarily be considered to have achieved a higher level of proficiency as well as greater breadth and depth of competency development than a Student who would have held a less senior position.

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF ONTARIO**

**REGULATION 6-2
APPLICANT REGISTRATION**

**Adopted by the Council pursuant to the *Chartered Accountants Act, 2010*, and the
Bylaws on June 16, 2011, as amended to September 28, 2012.**

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**REGULATION 6-2
APPLICANT REGISTRATION**

Adopted by the Council pursuant to the *Chartered Accountants Act, 2010*, and the Bylaws on June 16, 2011, as amended to September 28, 2012.

Definitions

1. In this regulation, words have the same meaning as they do in the Act and bylaws; and
 - 1.1 “becoming a resident of Canada” means the date of landing in Canada as evidenced by government documentation;
 - 1.2 “Relevant Experience Requirement” means the successful completion of at least twelve years of work experience, including at least five years of senior-level experience, in an accounting or business environment;
 - 1.3 “returning as a resident to Canada” means the date on which an individual re-acquires residency in Canada as defined in the *Income Tax Act*, or as evidenced by government documentation;
 - 1.4 “senior-level experience” means sufficient experience to support having the professional skills needed to handle complex issues proficiently and to be able to assume the degree of responsibility required of a Chartered Accountant.

Amended February 24, 2012

Registration

2. An Applicant seeking to register with the Institute shall submit an application in Form 6-2A along with:
 - 2.1 payment of the prescribed fee;
 - 2.2 proof of identity, including legal name, satisfactory to the Registrar;
 - 2.3 evidence of good character satisfactory to the Registrar;
 - 2.4 evidence satisfactory to the Registrar of meeting the requirements for one of the registration categories as set out in section 4; and
 - 2.5 if seeking to be registered pursuant to section 4.4:
 - 2.5.1 evidence satisfactory to the Registrar of completion of the Relevant Experience Requirement; and
 - 2.5.2 the name, business name and address and contact information of a sponsor and evidence satisfactory to the Registrar that the sponsor:

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- 2.5.2.1 is a Member in good standing;
- 2.5.2.2 has been a member in good standing of one or more provincial institutes continuously for the immediate past 10 years;
- 2.5.2.3 is independent from the Applicant;
- 2.5.2.4 has known the Applicant for a minimum of two years; and
- 2.5.2.5 confirms the information provided by the Applicant.

Amended September 28, 2012

- 3. It is the responsibility of the Applicant to ensure the application is complete and accurate, and received by the Registrar, and:
 - 3.1 An application submitted without the items required by section 2 shall be returned forthwith to the address provided by the Applicant and shall not be considered by the Registrar, and;
 - 3.2 An Applicant who fails to provide all information and produce all documents and other materials as requested, and within the time required, by the Registrar or, in extraordinary circumstances where such documentation is not available, provides alternative proof satisfactory to the Registrar, shall not be registered pursuant to this regulation and shall forfeit the fee paid under subsection 2.1.

Amended September 28, 2012

Registration Categories

- 4. An individual who meets all the criteria of one of the subsections of this section meets the requirements of subsection 2.4:
 - 4.1 **U.S. CPA** - an individual who:
 - 4.1.1 is in good standing with a state board of accountancy listed in Schedule A;
 - 4.1.2 holds a CPA certificate in good standing, and a licence or permit to practice if such is available in that jurisdiction, from that state board of accountancy;
 - 4.1.3 was not registered with the Institute as a Student in the five years prior to, or at the time of, writing the first part of the uniform CPA examination; and
 - 4.1.4 provides proof satisfactory to the Registrar of either:
 - 4.1.4.1 having written all parts of the uniform CPA examination prior to becoming a resident of, or returning as a resident

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to, Canada and at least three years after not being a resident of Canada; or

4.1.4.2 having written at least one part of the uniform CPA examination while in a country other than Canada for at least 75% of the four years immediately preceding that examination.

4.2 **Reciprocal Membership Body** - an individual who:

4.2.1 is a member in good standing with an accounting body outside Canada listed in Schedule B and, at either or both the time of the termination of the membership and its commencement, the accounting body was recognized;

4.2.2 was not registered with the Institute as a Student in the five years prior to, or at the time of, writing any part of the normal qualifying examination(s); and

4.2.3 provides proof satisfactory to the Registrar of either:

4.2.3.1 having written all parts of the normal qualifying examination(s) prior to becoming a resident of, or returning as a resident to, Canada and at least three years after not being a resident of Canada ; or

4.2.3.2 having written at least one part of the normal qualifying examination(s) while in a country other than Canada for at least 75% of the four years immediately preceding that examination.

4.3 **Recognized Accounting Body** - an individual who:

4.3.1 is a member in good standing of an accounting body outside Canada listed in Schedule C and, at either or both the time of the termination of the membership and its commencement, the accounting body was recognized;

4.3.2 was not registered with the Institute as a Student in the five years prior to, or at the time of, writing any part of the normal qualifying examination(s); and

4.3.3 provides proof satisfactory to the Registrar of either:

4.3.3.1 having written all parts of the normal qualifying examination(s) prior to becoming a resident of, or returning as a resident to, Canada and at least three years after not being a resident of Canada; or

4.3.3.2 having written at least one part of the normal qualifying examination(s) while in a country other than Canada for at

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least 75% of the four years immediately preceding that examination.

New – September 28, 2012

- 4.4 ***Evaluation of Experience*** – an individual who does not qualify for registration under sections 4.1 to 4.3 and who is a member in good standing, having been admitted to membership on the basis of successful completion of the normal qualification requirements including the normal final examination(s), of one of the following:
- 4.4.1 a state board of accountancy in the United States of America (Certified Public Accountant);
 - 4.4.2 a Reciprocal Membership Body listed in Schedule B;
 - 4.4.3 a Recognized Accounting Body listed in Schedule C; or
 - 4.4.4 a Specified Accounting Body listed in Schedule D.

Amended September 28, 2012

5. An Applicant may only register in one registration category, and shall not also be registered as a Student at any time during the period of registration.

Amended February 24, 2012

Period of Registration

6. The date of registration shall be the date upon which the Registrar is satisfied the individual has complied with all the requirements of section 2 of this regulation.

Amended September 28, 2012

7. An Applicant shall renew registration on an annual basis by making an application for renewal in Form 6-2B and paying the prescribed fee, and providing all information and producing all documents and other materials as requested by the Registrar.
8. The Registrar shall suspend the registration of any Applicant who fails to comply with any provision of this regulation, or of the bylaws or regulations, and shall deregister an Applicant as required by the bylaws.
9. The Registrar shall deregister any Applicant whose registration has been suspended for a cumulative period of one year.
10. The Registrar shall deregister an Applicant on the fifth anniversary of that Applicant's initial date of registration or six months from the date the Applicant is informed all the requirements of this regulation have been fulfilled or, subject to section 17, on the date of the Applicant's fourth unsuccessful attempt of the CA Reciprocity Examination, Part I, whichever occurs first.

Amended September 28, 2012

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11. An Applicant who has been deregistered or whose registration has expired may apply for reregistration at any time after the first anniversary of the date of deregistration or expiry and upon complying with the requirements for registration in effect at the time of that application.
12. An Applicant shall not be reregistered except at the discretion of the Registrar, and such reregistration may be subject to terms and conditions imposed by the Registrar.
13. Notwithstanding sections 10 through 12, the Registrar shall deregister an Applicant registered pursuant to section 4.4 on the third anniversary of that Applicant's initial date of registration or on the date of the Applicant's second unsuccessful attempt at the Evaluation prescribed in section 16.2, whichever occurs first, and shall not reregister that Applicant under this regulation; however, the Registrar may, at his discretion and on such terms and conditions as he deems fit, register that Applicant as a Student subject to the requirements of Regulation 6-1.

Amended September 28, 2012

14. An Applicant who is reregistered or who is subsequently registered as a Student shall not retain credit for the fulfillment of any of the requirements of this regulation occurring during any other period of registration, except in the discretion of the Registrar.

Amended February 24, 2012

Completion of Program

15. Unless otherwise specified in this regulation, every Applicant shall complete the following during the period of registration in good standing:
 - 15.1 Evaluation Requirement; and
 - 15.2 Practical Experience Requirement.

Evaluation Requirement

16. During the period of registration and not more than three years prior to applying for membership under Regulation 4-1:
 - 16.1 every Applicant shall successfully complete, in no more than four attempts, the CA Reciprocity Examination, Part I;
 - 16.2 every Applicant registered pursuant to section 4.4 shall also successfully complete the Evaluation approved by the Council; and
 - 16.3 every Applicant who intends to apply for a public accounting licence under Regulation 9-1 after admission to membership shall successfully complete, in no more than four attempts, the CA Reciprocity Examination, Part II, or such other course(s) and examination(s) prescribed by the Council in lieu of that examination.

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Amended September 28, 2012

17. Applicants registered pursuant to section 4.2 who do not intend to apply for a public accounting licence under Regulation 9-1 after admission to membership are exempt from the provisions of section 16 but shall, by December 31, 2014, or the second anniversary of the date of admission to membership pursuant to Regulation 4-1, whichever is later, successfully complete such course(s) and/or program(s) of professional development as may be prescribed by the Council, and a failure to comply with the requirements of this section is a breach of member obligations as set out in Regulation 4-3.

New - September 28, 2012

18. Applicants registered pursuant to section 4.4 are not eligible to apply for a public accounting licence under Regulation 9-1 after admission to membership.

New – September 28, 2012

Practical Experience Requirement

19. Every Applicant registered pursuant to section 4.1 or 4.3 shall provide proof of prior practical experience by completing Form 6-2C and providing further information and documents in support.

Amended September 28, 2012

20. The Registrar shall assess the proof of practical experience provided by the Applicant against the required competencies of an entry-level Chartered Accountant, as set out in Schedule E, on a substantial equivalency basis, and determine either that:

20.1 the Applicant has at least three years of practical experience and has achieved the Entry-Level Competencies set out in Schedule E of this regulation; or

20.2 the Applicant must acquire further practical experience to complete the three years of practical experience or achieve one or more of the Entry-Level Competencies set out in Schedule E of this regulation.

Amended September 28, 2012

21. The Registrar shall require the Applicant, if a decision is made under subsection 20.2 of this regulation, to complete a further period of practical experience of up to three years.

22. The Registrar shall require the further period of practical experience required under section 21 of this regulation to be completed either:

22.1 in the same form and manner, and be subject to the same constraints and prescriptions, as though it were a period of practical experience under Regulation 6-1; or

22.2 under the supervision of a Member in good standing of the Institute.

Discretion and Appeals

23. In making any decision pursuant to this regulation, the Registrar shall act in accord with the Act, Bylaws, and regulations of the Institute and shall be guided by the policies and guidelines, if any, passed by the Council from time to time.
24. A decision of the Registrar not to register or reregister an individual as an Applicant or to deregister an Applicant may be appealed by the individual or Applicant to the Membership Committee.
25. The parties to an appeal are the individual appealing and the Registrar.
26. The appeal shall be conducted in accordance with the Rules of Practice and Procedure.
27. The decision of the Membership Committee is final.

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SCHEDULE A

Amended September 28, 2012.

Reciprocal State Boards of Accountancy

Alabama State Board of Public Accountancy
Arkansas State Board of Public Accountancy
California State Board of Accountancy (with additional proof of compliance with the 150 hour education requirement)
Delaware Board of Accountancy
District of Columbia Board of Accountancy
Florida Board of Accountancy
Georgia State Board of Accountancy
Guam Board of Accountancy
Idaho State Board of Accountancy
Illinois Board of Examiners and Dept. of Financial & Professional Regulation
Indiana Board of Accountancy
Iowa Accountancy Examining Board
Kansas Board of Accountancy
Kentucky State Board of Accountancy
State Board of CPAs of **Louisiana**
Maine Board of Accountancy
Maryland State Board of Public Accountancy
Massachusetts Board of Public Accountancy
Michigan Board of Accountancy
Minnesota State Board of Accountancy
Mississippi State Board of Public Accountancy
Missouri State Board of Accountancy
Montana State Board of Public Accountants
Nebraska State Board of Public Accountancy
Nevada State Board of Accountancy
New Jersey State Board of Accountancy
New Mexico Public Accountancy Board
New York State Board for Public Accountancy
North Carolina Board of CPA Examiners
North Dakota State Board of Accountancy
Accountancy Board of **Ohio** (with additional proof of compliance with the 150 hour education requirement)
Oklahoma Accountancy Board
Oregon State Board of Accountancy
Pennsylvania State Board of Accountancy
South Carolina Board of Accountancy
South Dakota Board of Accountancy
Tennessee State Board of Accountancy
Texas State Board of Public Accountancy
Utah Board of Accountancy
Virginia Board of Accountancy
Washington State Board of Accountancy
West Virginia Board of Accountancy
Wisconsin Accounting Examining Board
Wyoming Board of Certified Public Accountants (with additional proof of compliance

with the 150 hour education requirement)

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SCHEDULE B

Amended September 28, 2012.

Reciprocal Membership Bodies

The Institute of Chartered Accountants of Australia

The Institute of Chartered Accountants in England and Wales

The Hong Kong Institute of Certified Public Accountants - having completed the Qualifying Program (Professional Program and Final Professional Examination) after January 1, 2002

The Institute of Chartered Accountants of Ireland

New Zealand Institute of Chartered Accountants

The Institute of Chartered Accountants of Scotland

The South African Institute of Chartered Accountants

The Institute of Chartered Accountants of Zimbabwe - having registered in the Qualifying Program on or after January 1, 1996

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SCHEDULE C

Amended September 28, 2012.

Recognized Accounting Bodies

Instituto Mexicano de Contadores Publicos (must have obtained the CPC designation)

L'Institut des Réviseurs d'Entreprises de Belgique

Ordre des experts comptables de France

The Japanese Institute of Certified Public Accountants

The Netherlands Institute of Registered Accountants

SCHEDULE D

Amended February 24, 2012

SPECIFIED ACCOUNTING BODIES

The Association of Chartered Certified Accountants (United Kingdom)
The Australian Society of Certified Practising Accountants
The Institute of Chartered Accountants of India
The Institute of Chartered Accountants of Pakistan

**GUIDELINES:
ASSESSMENT OF COMPETENCIES OF APPLICANTS**

Pursuant to Section 20 of Regulation 6-2, the Registrar shall assess the proof of practical experience provided by the Applicant against the required competencies of an entry-level Chartered Accountant. The determination to be made by the Registrar is whether the Applicant has acquired as a result of his or her previously acquired experience in accounting, the competency development required for the entry-level CA at the time of admission to membership in the Institute.

The Registrar's determination shall be based upon an assessment of the totality of the Applicant's previous professional accounting experience completed for the purpose of qualifying for admission to membership in the particular accounting body and subsequent to admission to membership in that body. The assessment should take into account:

- the Applicant's depth and breadth of competency development;
- the duration of the period(s) of accounting experience (i.e. the number of months or years);
- the nature of the place(s) of employment or practice in which the accounting experience was obtained;
- the position(s) held by the applicant; and
- the progression of the applicant's career in professional accounting.

Depth and breadth of competency development

The entry-level competencies are grouped into the following six categories:

- Performance Measurement and Reporting
- Assurance
- Taxation
- Governance, Strategy and Risk Management
- Management Decision-Making
- Finance

Depth of competency development must be demonstrated in any one of the competency areas. Breadth of competency development must be demonstrated in two areas.

Depth

To meet the *depth* of competency development requirement, an applicant must satisfy the Registrar that he or she:

- has gained sufficient direct working experience in all or most of the specific competencies listed for any one of the competency areas
- if depth is achieved in any one of the following areas:
 - Taxation
 - Governance, Strategy & Risk Management
 - Management Decision-Making

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- Finance
one of the breadth areas **must** be in Performance Measurement & Reporting. Within this breadth area, Level Two proficiency (see below) must be achieved in the following three specific competencies:
 - Evaluates the impact of alternative and/or new accounting standards/policies
 - Reviews, proposes or accounts for the entity's transactions, including complex transactions
 - Prepares and/or reviews financial statements and accompanying notes
- has demonstrated an awareness of emerging topics in his or her areas of depth, either independently or as part of a team with little direction or supervision

For qualifying practical experience in an area of depth, an applicant must demonstrate a Level 2 proficiency in the majority of the competencies in the area, and a Level 1 proficiency in the balance of the depth requirement.

Breadth

To meet the *breadth* of competency development requirement, an applicant must satisfy the Registrar that he or she has gained sufficient direct working experience in at least half of the specific competencies listed in two of the other competency areas, excluding the competency that fulfills the depth of competency requirement, and demonstrate the ability to work at a Level 2 proficiency in at least half of those.

Proficiency levels

For the purposes of demonstrating depth and breadth of competency development, the *proficiency levels* are as follows:

Level 1 (works under supervision): The Applicant has the basic knowledge and skill required to complete the task assigned but does not complete the task without supervision or assume responsibility for its execution. The Applicant requires supervision and direction in completing the tasks as he/she begins applying their education to practice.

Level 2 (works independently): The applicant can apply the underlying knowledge and skill in a practical setting and is able to complete tasks independently or as part of a team with minimal direction or supervision. The Applicant assumes responsibility for execution of the task and performs all work with diligence and due care. The Applicant treats each situation as an opportunity to further develop their professional judgement and/or expand their knowledge base.

Duration of professional accounting experience

The *duration of professional accounting experience* required for admission to membership in the Institute is a minimum term of three years of experience acceptable to the Institute. An Applicant who has not obtained at least three years of previous professional accounting experience acceptable to the Institute is required to fulfill a period of experience in accounting as prescribed by the Registrar such that the applicant will have obtained by the date of admission to membership in the Institute an amount of acceptable accounting experience that in aggregate is at least three years in duration.

Nature of the place(s) of employment or practice

The factors that should be considered by the Registrar in respect of the *nature of the place of employment or practice* are:

- As applicable,
 - The nature or line of business (for example, financial services, manufacturing, natural resources, retailing, information technology) and examples of the major clients, customers or recipients of the products or services, or
 - The nature of the professional services provided, including whether the services were public accounting or related areas (for example, assurance/attestation, taxation, advisory services) and examples of the major clients, customers or recipients of the products or services
- The size of the business or practice, with reference to such matters as total number of staff, number of partners, total annual revenues or budget
- The corporate structure (e.g. for-profit corporation, not-for-profit corporation, public sector/governmental organization, academic institution, partnership, proprietorship) and in respect of a corporate entity, whether it is/was a publicly listed or publicly traded entity or a privately owned/not publicly listed entity.

The position(s) held by the applicant

In respect of the *positions(s) held by the Applicant*, the Registrar should consider:

- the title of each position held;
- the level or seniority of the position within the place of employment or practice, with reference to such matters as to whom (position) the Applicant directly reported or was accountable and the placement of such position within the overall management or governance structure;
- the breadth and complexity of the responsibilities assigned to the Applicant in the position held;
- the breadth and depth of competency development during the period in which the Applicant held the position.

The progression of the applicant's career in professional accounting

Position-specific indicators that should be considered by the Registrar when determining an Applicant's progression through his or her career in professional accounting include demonstration of work functions or the provision of professional services in defined positions that:

- require increasing competency development;
- require the ability of the applicant to handle increasingly complex tasks;
- involve increasing levels of responsibility;
- provide increased ability and opportunity to supervise, manage and mentor others and decreased level of supervision of the applicant throughout his or her career path, which may be measured by
 - number of supervisors;
 - number of direct reports;
 - changes in position or job titles;
 - changes to job responsibilities and accountabilities;

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- provide opportunities for the applicant to learn from supervisors who are deemed experts in their field (exposed to or mentored by other professionals).

Progression to successively more senior positions and/or demonstration of progressively higher levels of proficiency over the course of the Applicant's employment or practice with a particular entity or throughout the Applicant's total period(s) of accounting experience should also ordinarily indicate greater breadth and depth of competency development. An Applicant who has achieved through their previous employment or practice a position or level as a partner, senior executive, director or officer should ordinarily be considered to have achieved a higher level of proficiency as well as greater breadth and depth of competency development than an Applicant who would have held a less senior position.

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF ONTARIO**

**REGULATION 9-1
PUBLIC ACCOUNTING LICENSING**

**Adopted by the Council pursuant to the *Chartered Accountants Act, 2010*, and the
Bylaws on June 16, 2011
as amended to September 28, 2012.**

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REGULATION 9-1

PUBLIC ACCOUNTING LICENSING

**Adopted by the Council pursuant to the *Chartered Accountants Act, 2010*, and the
*Bylaws on June 16, 2011***

as amended to September 28, 2012.

Definitions

1. In this regulation, words have the same meaning as they do in the Act and bylaws and:
 - 1.1 “chargeable hours” are hours normally chargeable to clients of a public accounting practice, provided that work of a routine clerical nature shall not be included in the computation of chargeable hours;
 - 1.2 “Continuing Professional Development Requirement” means that the Member fulfilled a minimum of 20 hours annually, and 120 hours in the last three year period, of mandatory continuing professional development in activities directly related to the competencies needed to provide public accounting services. Fifty percent of the annual and triennial hours must be verifiable;
 - 1.3 “CPAB” means the Canadian Public Accountability Board;
 - 1.4 “Current Competency Requirement” means that the Member successfully completed, not more than 36 months prior to the date of application, a period of at least 12 months of public accounting services under the supervision of a licensee who will provide the Institute with a certificate of such completion, and successfully completed the Public Accounting Licensing Examination;
 - 1.5 “designated services” are services that require competencies that are complementary to those required to provide public accounting services, namely:
 - 1.5.1 taxation services related to assessing the appropriateness of taxation provisions and related financial reporting;
 - 1.5.2 performance measurement relating to the evaluation, development and interpretation of an entity’s financial and nonfinancial information that measures and enhances an entity’s organizational performance;
 - 1.5.3 forensic accounting;
 - 1.5.4 research on the interpretation or application of the accounting and assurance standards set out in the *CICA Handbook – Accounting* and *CICA Handbook – Assurance* or on professional standards;
 - 1.5.5 financial reporting involving the review of accounting principles and financial statement disclosure and the appropriateness of internal

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controls for the purpose of presenting fairly the financial statements of an entity;

- 1.5.6 corporate finance services related to assisting a client in obtaining financing by explaining the financial statements to a financial institution, and assisting a client in analyzing the accounting effects of certain transactions;
- 1.5.7 research conducted for, or advice given to, assurance clients on matters related to assurance engagements;
- 1.5.8 training of other accountants or staff of the practice or firm in respect of the performance of assurance services where such training is an ongoing responsibility of the Member.

1.7. “disciplinary proceeding” includes any complaint, investigation, proceeding, finding, order or settlement in any jurisdiction relating to the competence, conduct or character of the Member or firm, and includes criminal proceedings.

New – September 28, 2012

1.8. “documented hours” are hours acquired in a public accounting practice through the provision of public accounting services described in clauses 1.11.1, 1.11.2 or 1.11.4 and which have not been charged to clients;

New – September 28, 2012

1.9. “eligible hours” are:

1.9.1 chargeable hours and, for the purposes of section 3 only, documented hours, acquired as a result of participating in a recognized capacity in providing public accounting services; and

1.9.2 other hours acquired in designated services;

Amended September 28, 2012

1.10 “immediate past five years” means the five years preceding the date the application for issuance or renewal of a public accounting licence was received by the Institute;

1.11 “participated in a recognized capacity in providing public accounting services” means one or more of the following:

1.11.1 each member of a firm or practising office who directly participates in a public accounting engagement, including any related subsidiary engagement, as a member of the engagement team;

1.11.2 each member of a firm or practising office who can directly influence the outcome of a public accounting engagement, such as members who provide:

1.11.2.1 consultation regarding professional standards;

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- 1.11.2.2 consultation or opinions regarding taxation provisions or other technical or industry-specific issues, transactions or events;
- 1.11.2.3 quality control reviews;
- 1.11.3 a practice inspector appointed by the Institute or by CPAB to conduct practice inspections of licensees, firms and practising offices; and
- 1.11.4 for the purposes of licence renewal only, each member of a firm or practising office who has responsibility for the entire public accounting engagement, who has direct supervision, management or oversight of the leadership of the engagement teams(s) or completes a second partner review;
- 1.12 “Practice Inspection Requirement” is fulfilled if the Member, within the immediate past five years:
 - 1.12.1 participated in a recognized capacity in public accounting services in a practising office that has been the subject of a practice inspection resulting in a determination that the practice’s quality control system, current engagement files, and related financial statements adhere to professional standards contained within the *CICA Handbook* and other professional standards established by the Institute;
 - 1.12.2 participated in a recognized capacity in public accounting services in a practising office located outside of Canada that has been the subject of a practice inspection satisfactory to the Institute by the applicable regulatory authority resulting in a determination that the practice’s quality control system, current engagement files, and related financial statements adhere to internationally recognized standards which the Institute recognizes as substantially equivalent to the professional standards contained in the *CICA Handbook* and other standards established by the Institute;
 - 1.12.3 is an employee, partner or sole proprietor of a newly established or soon-to-be established practising office or of an established practising office that has not been the subject of a practice inspection; in which case the Member shall be eligible to be granted a licence if he or she has satisfied the Public Accounting Licensing Board that he or she has successfully completed all of the other requirements and shall hold such licence, if granted, on the condition that the firm or practising office is the subject of a practice inspection not later than 12 months following the date of issuance of the licence and the inspection results in a determination that the practice’s quality control system, current engagement files, and related financial statements adhere to professional standards contained within the *CICA Handbook* and other professional standards established by the Institute; or

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- 1.12.4 is a practice inspector appointed by the Institute or by CPAB to conduct practice inspections of licensees, firms and practising offices;
- 1.13 “practising office” includes the national or head office in Canada of a public accounting firm that has been accepted by the CPAB as a participating audit firm in its oversight program, whether or not the office has been the subject of a practice inspection;
- Amended September 28, 2012*
- 1.14 “Professional Experience Requirement” means that a Member participated in a recognized capacity in public accounting services and, within the immediate past five years, obtained a minimum of 2,500 hours consisting of:
- 1.14.1 a minimum of 1,250 eligible hours in public accounting services, excluding any hours for which a public accounting licence was required but not held; and
- 1.14.2 up to 1,250 eligible hours in designated services;
- Amended September 28, 2012*
- 1.15 “Public Accounting Licensing Examination” means the examination established by the Institute on the accounting and assurance standards set out in the *CICA Handbook – Accounting* and *CICA Handbook – Assurance*, the Rules of Professional Conduct, taxation and business law;
- 1.16 “public accounting services” are the services described in ss. 2 and 3 of the *Public Accounting Act, 2004*;
- 1.17 “Qualifying Experience Requirement” means the successful completion of a minimum of two years of prescribed public accounting experience in a training office, which experience shall be completed under the direct supervision of a Member who is licensed to practice public accounting and shall include at least:
- 1.17.1 1,250 chargeable hours in assurance services, of which at least 625 chargeable hours shall be in audit engagements and 100 chargeable hours of review procedures in review and other assurance engagements; and
- 1.17.2 100 chargeable hours in taxation services;
- 1.18 “sole shareholder professional corporation” means a professional corporation, as defined in section 3.1 of the *Ontario Business Corporations Act*, which has only one Member shareholder.

New Licence

2. A Member who has never held a public accounting licence or whose licence has lapsed or expired is eligible to be issued a public accounting licence, pursuant to bylaw 9.3, if the Member has provided all the information, documents and materials

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requested by the Registrar or required to prove compliance with this section within 30 days of such request or the application upon:

- 2.1 making an application in Form 9-1A for a licence and paying the prescribed fee;
- 2.2 unless applying under subsection 2.8, satisfying the Public Accounting Licensing Board of good character;
- 2.3 unless applying under subsection 2.8, completing the Continuing Professional Development Requirement;
- 2.4 unless applying under subsection 2.8, completing the Practice Inspection Requirement; and
- 2.5 unless applying under subsection 2.8, completing either the Professional Experience Requirement or the Current Competency Requirement.
- 2.6 if the Member became a Member of the Institute after October 31, 2006 and became a Member through registration as a Student pursuant to Regulation 6-1 or its predecessor:
 - 2.6.1 and the registration as a Student was in the Accounting Body Outside Canada – Specified category:
 - 2.6.1.1 having successfully completed the requirements of the Core Knowledge Examination and the School of Accountancy; and
 - 2.6.1.2 having completed a period of not less than two years providing public accounting services;
 - 2.6.2 in all other cases, completing, or having completed while a Student, the Qualifying Experience Requirement;
- 2.7 if the Member became a Member of the Institute pursuant to Regulation 6-2 or its predecessor, and unless otherwise prohibited by Regulation 6-2, successfully completing, or having successfully completed prior to admission, the CA Reciprocity Examination, Parts I and II;
- 2.8 if the Member is a member of a provincial institute other than Bermuda or an authorized designated body, and has never held a licence issued under this section, providing proof satisfactory to the Public Accounting Licensing Board of:
 - 2.8.1 membership in good standing in that provincial institute or body;
 - 2.8.2 licensing, certification, or authorization to practise public accounting in good standing without limitation or restriction in that province;
 - 2.8.3 currently not being the subject of any disciplinary proceeding;

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- 2.8.4 if a member of a provincial institute other than Bermuda, either having practised public accounting in the past five years or having completed the Current Competency Requirement; and
- 2.8.5 if a member of an authorized designated body, compliance with the continuing professional development requirements of that body, and the date of the last successful and next scheduled practice inspections.

Amended September 28, 2012

Licence Renewal

- 3. A Member who holds a public accounting licence is eligible to renew that licence, pursuant to bylaw 9.4, upon:
 - 3.1 making an application or re-application in Form 9-1B for a licence renewal and paying the prescribed fee;
 - 3.2 completing the Continuing Professional Development Requirement;
 - 3.3 completing the Practice Inspection Requirement; and
 - 3.4 completing the Professional Experience Requirement or, if the licence was issued pursuant to subsection 2.8 other than by reason of membership in an authorized designated body, completing the Professional Experience Requirement by the fifth anniversary of the date of original issuance of that licence.

Amended September 28, 2012

- 4. Notwithstanding section 3, a Member shall not be eligible to renew a licence if:
 - 4.1 the Member fails to apply to renew the licence prior to expiry;
 - 4.2 the Member fails to provide all information, documents and materials requested by the Registrar or required to prove compliance with section 3, within 30 days of the date of the expiry of the licence to be renewed;
 - 4.3 the rights and privileges of the Member are suspended;
 - 4.4 the public accounting licence is suspended or has been revoked; or
 - 4.5 the Member held a licence issued by another authorized designated body under the *Public Accounting Act, 2004*, or a licence, certification or authorization issued by a provincial institute other than Bermuda to practise public accounting and such licence, certificate or authorization was suspended or revoked and has not been reinstated by the other authorized designated body.

Amended September 28, 2012

Discretion of the Public Accounting Licensing Board

5. Except as provided in sections 6 and 7, the Public Accounting Licensing Board shall not issue or renew a public accounting licence unless the Member meets the requirements of sections 2 through 4.

Amended December 1, 2011

6. In exceptional circumstances, and only if it is satisfied the exceptional circumstances of the Member will not continue beyond a period of two years from the date of the application for a licence or renewal, the Public Accounting Licensing Board may issue or renew a public accounting licence to a Member who:

- 6.1 has met all the relevant requirements of this regulation with the exception of the Professional Experience Requirement; and
- 6.2 has demonstrated the required capabilities, competence and current skills to provide public accounting services.

Amended December 1, 2011

7. Notwithstanding section 6, the Public Accounting Licensing Board may renew a public accounting licence to a Member who:

- 7.1 has met all the relevant requirements of this regulation with the exception of the Professional Experience Requirement;
- 7.2 has demonstrated the required capabilities, competence and current skills to provide public accounting services; and
- 7.3 has a practice comprised substantially of one or more of the following:
- 7.3.1 responsibility for the entire public accounting engagement of a firm or practising office;
- 7.3.2 completion of second partner reviews; and
- 7.3.3 responsibility for the direct supervision, management or oversight of the leadership of the engagement team(s) that are significantly more than strictly administrative in nature and include such functions as reviewing assurance files of major clients or high-risk clients, interpretation or application of either or both of Generally Accepted Accounting Principles and Generally Accepted Assurance Standards or on professional standards, or advice given to assurance clients on matters related to assurance engagements.

Amended December 1, 2011

8. The Public Accounting Licensing Board shall document in writing its reasons for issuing or renewing any licence pursuant to section 6 or 7, and shall report as required to the Public Accountants Council for the Province of Ontario.

Amended December 1, 2011

Certificates of Authorization

9. A professional corporation is eligible to be issued a certificate of authorization, pursuant to bylaw 9.6 and Regulation 4-6, if the corporation:
- 9.1 is registered in good standing with the Institute in accordance with bylaw 4.16;
 - 9.2 makes an application for a certificate in Form 9-1C and pays the prescribed fee;
 - 9.3 files a copy of the articles of incorporation and any articles of amendments; and
 - 9.4 provides proof satisfactory to the Registrar that the corporation:
 - 9.4.1 meets all of the requirements of a professional corporation under section 3.1 of the Ontario *Business Corporations Act*, the *Chartered Accountants Act, 2010* and any regulations made under those Acts; and
 - 9.4.2 maintains professional liability insurance coverage in accordance with requirements of Regulation 4-4.

Amended September 28, 2012

10. A professional corporation is eligible to renew a certificate of authorization, pursuant to bylaw 9.6 and Regulation 4.6, if the corporation:
- 10.1 prior to the date upon which the certificate expires, makes an application in Form 9-1D for a certificate renewal and pays the prescribed fee; and
 - 10.2 satisfies the Institute that the corporation continues to meet all the requirements for issuance of a certificate set out in section 9.

Amended September 28, 2012

11. A certificate of authorization that has expired cannot be renewed; however, a professional corporation may apply for a new certificate of authorization pursuant to section 9.

Form of Licence and Certificate

12. Every public accounting licence or certificate of authorization issued or renewed by the Institute shall:
- 12.1 be numbered;
 - 12.2 bear the date upon which it is issued or renewed;
 - 12.3 bear the date on which it expires; and

- 12.4 be effective from the date upon which it is issued or renewed until the date it expires, unless earlier suspended or revoked.

Notification

13. The Registrar shall notify any authorized designated body from which a Member or professional corporation holds a public accounting licence or certificate of authorization upon the Member or professional corporation applying for a licence or certificate under this regulation, and shall disclose to the authorized designated body the date of issuance of any such licence or certificate.

Amended September 28, 2012

Disclosure of Status

14. On any statement or report that is in respect of an assurance engagement, or a compilation engagement for which it can reasonably be expected that all or any portion of the compilation or associated materials prepared by the Member providing the service will be relied upon or used by a third party, when the report for the engagement is issued or the work for the engagement is primarily performed in Ontario:
- 14.1 A Member who is licensed as a public accountant shall use the term "Licensed Public Accountant" or the initials "LPA", following the licensee's legal name and the designation "Chartered Accountant" or the initials "CA";
- 14.2 A professional corporation that holds a certificate of authorization to practice public accounting shall use the term "Authorized to practice public accounting by the Institute of Chartered Accountants of Ontario"; and
- 14.3 A firm, other than a professional corporation, shall use the term "Licensed Public Accountants" or the initials "LPA", following the designation "Chartered Accountants".
15. Only the lead engagement person responsible for signing a statement or report for a public accounting engagement must hold a public accounting licence. Other members of the engagement team, including the engagement quality control reviewer or other experts may be, but are not required to be, licensed.

Suspension, Revocation or Refusal of Public Accounting Licence

16. A public accounting licence shall be immediately suspended upon the rights and privileges of the Member being suspended for any reason. The licence will be reinstated upon the rights and privileges of the Member in the Institute being reinstated, unless the licence has expired or been otherwise suspended or revoked.
17. A public accounting licence shall be immediately revoked upon the revocation of membership of a Member.

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18. Upon being advised by another authorized designated body that a Member who is licensed by the Institute has been issued a public accounting licence by that authorized designated body, the Member's licence shall be revoked as of the date of the issuance of the licence by the other authorized designated body.

New – September 28, 2012

19. The Public Accounting Licensing Board may suspend the public accounting licence of a Member and may refuse to issue or renew a public accounting licence to a Member if it has reasonable grounds to believe the Member:

19.1 has breached any obligation or requirement under any regulation or bylaw, particularly but not limited to, Regulation 4-4 Professional Liability Insurance, Regulation 4-5 Continuing Professional Development, Regulation 4-6 Practice Structure, and Regulation 10-1 Practice Inspection;

19.2 has provided false or misleading information to the Public Accounting Licensing Board;

19.3 is the subject of a custodianship order;

19.4 is the subject of a capacity order.

New – September 28, 2012

20. The Public Accounting Licensing Board may refuse to issue or renew a public accounting licence to a Member, or impose terms conditions or restrictions on the licence granted to a Member where such action is considered necessary to protect the public interest as a result of complaints or disciplinary or criminal proceedings in any other jurisdiction relating to the competency, conduct or character of the Member.

New – September 28, 2012

Suspension, Revocation or Refusal of Certificate of Authorization

21. The certificate of authorization issued to a sole shareholder professional corporation shall be suspended immediately upon:

21.1 the membership of the shareholder being suspended for any reason; or

21.2 the public accounting licence of the shareholder expiring or being suspended for any reason,

and shall be reinstated upon the reason for the suspension ceasing to exist, unless the certificate has expired or been otherwise suspended or revoked.

22. A professional corporation shall return its certificate of authorization to the Institute forthwith upon notification of suspension and is not entitled to apply for the issuance or renewal of the certificate during the period of suspension.

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23. A certificate of authorization issued to a sole shareholder professional corporation shall be revoked upon the shareholder's membership being revoked.
24. Upon being advised by another authorized designated body that a professional corporation that has been granted a certificate of authorization by the Institute has been issued a certificate of authorization by that authorized designated body, the Registrar shall revoke the certificate of authorization of the professional corporation as of the date of the issuance of the certificate of authorization by the other authorized designated body.

New – September 28, 2012

Public Accounting Licensing Board

Structure of the Board

25. The Public Accounting Licensing Board (the "Board") shall consist of between five (5) and eight (8) members, including no less than two public representatives. The members of the board shall generally be representative of the Institute's membership by occupation and geographic location.
26. The members of the Board shall be appointed for an initial one year term. Members are eligible for reappointment for three additional three year terms and, thereafter, on an annual basis.
27. The quorum for the Board shall be three members, one of whom shall be a public representative.
28. Members of the Board may continue to serve on the Board until a successor is appointed.

Meetings of the Board

29. The Board shall meet monthly, on a date fixed by the chair.
30. Unless ordered otherwise by the chair, the meetings of the Board may be held by telephone conference.

Responsibilities of the Board

31. The Board shall be responsible for matters relating to public accounting licences, certificates of authorization and the practice of public accounting, including but not limited to, overseeing the Institute's licensing standards, responsibilities, functions and processes.

Powers of the Board

32. The Board shall have the power to:
- 32.1 decide applications from Members for public accounting licences;

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- 32.2 decide applications from professional corporations for certificates of authorization;
- 32.3 decide applications and re-applications for renewal of public accounting licences and certificates of authorization;
- 32.4 refer matters or applications to the Registrar or a Committee; and
- 32.5 receive, for the record, notices of revocation of public accounting licences and certificates of authorization.

Amended February 24, 2012

Deferral and Denial

33. The Board may defer consideration of and shall not issue a public accounting licence to a Member:

- 33.1 while the conduct of the Member is the subject of an investigation by the Professional Conduct Committee, unless that Committee advises that the nature or circumstances of the investigation would not put at risk or would not appear to put at risk any member of the public, the reputation of the profession or the ability of the profession to serve the public interest;
- 33.2 if the Professional Conduct Committee refers any matter regarding the conduct of a Member to the Discipline Committee and, in the opinion of the Board, the nature of or circumstances surrounding the complaint or settlement would put at risk or appear to put at risk any member of the public, the reputation of the profession or the ability of the profession to serve the public interest if the Member were to be granted a public accounting licence;
- 33.3 who held a public accounting licence previously and such licence was revoked by order of the Discipline or Appeal Committees, unless the relevant committee advises the Board that the Member has successfully met PAC Standard 15(2);
- 33.4 who is the subject of a settlement agreement or an order of the Discipline or Appeal Committees and the Member has not fully complied with the agreement or order; or
- 33.5 who is the subject of an ongoing investigation or order of the Capacity Committee.

Amended February 24, 2012

34. The Board shall not issue or renew a public accounting licence of a Member whom the Board has reason to believe will not practice public accounting or will not perform public accounting services in accordance with the *Public Accounting Act, 2004* or the bylaws, regulations or Rules of Professional Conduct.

Request for Review

35. A Member or professional corporation may request a decision of the Board under section 27 be reviewed by the Membership Committee.

Reconsideration

36. The Board shall reconsider all matters referred back to it by the Membership Committee, taking into account the following:

36.1 all information available to the Board at the time of the original consideration;

36.2 any further information available at the time of the reconsideration; and

36.3 any directions or guidance given by the Membership Committee.

37. The Board has the power to confirm, vary or reverse its original decision.

38. The decision of the Board on reconsideration is final.

Power to Refer

39. Upon the Board becoming aware of any act, omission, or matter that the Registrar or a Committee is empowered to consider, investigate or enquire into, the Board shall:

39.1 bring such act, omission, or matter to the attention of the relevant body; and

39.2 provide any information or documentation that the Board has received or obtained, and any minutes or other documents of the Board.

Powers on Report from Practice Inspection

40. On receipt of a report made by the Practice Inspection Committee or its delegate pursuant to Regulation 10-1, the Board may inquire, or direct the Registrar to inquire, into any issue raised in that report and whether the requirements of this Regulation have been met.

41. The Board shall provide to the Member or professional corporation notice of the enquiry, a brief description of the issue that arose from the practice inspection, a description of the result of any inquiries made by Registrar or Board and invite written submissions from the Member or the professional corporation.

42. The Member or professional corporation shall file written submissions, if any, with the Board within 15 days of receiving notice of the enquiry.

43. If the Board remains unsatisfied after the enquiry and the submission, the Board has the power to:

43.1 suspend the licence or the certificate of authorization until such time as any identified deficiency, error or other matter that led to the suspension is rectified;

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- 43.2 make a complaint to the Professional Conduct Committee regarding the conduct of the Member, firm, or professional corporation including, but not limited to:
- 43.2.1 misrepresentations or fraudulent statements made on an issuance or renewal application for a public accounting licence or certificate of authorization;
 - 43.2.2 misrepresentations or fraudulent statements made to the Board, the Membership Committee, the Institute or any members, directors, officers, and employees thereof; or
 - 43.2.3 engaging in the practice of public accounting without a valid licence or certificate of authorization.

Membership Committee

Structure of the Committee

44. The Membership Committee shall consist of fifteen to twenty (15 to 20) members, including a Chair, two (2) Deputy Chairs, and three to four (3 to 4) public representatives. The members of the Committee shall generally be representative of the Institute's membership by occupation and geographic location, and shall include public accounting licensees.

Term of Office

45. Members of the Membership Committee shall be appointed for an initial one year term. Members are eligible for reappointment for three additional three year terms and, thereafter, on an annual basis.
46. The Chair and Deputy Chairs of the Committee shall be appointed for a term of two years. They are each eligible for reappointment, thereafter, on an annual basis.
47. Any member, whose term of office would otherwise expire, shall remain a member of the Committee until such time as all hearings over which he or she is presiding and matters ancillary to such hearings have been concluded.

Quorum

48. The quorum for the Membership Committee shall be three members and, for matters considered under this regulation, shall include expertise in public accounting and a public representative.

Licensing Jurisdiction

49. The Membership Committee shall consider in respect of public accounting licensing matters:
- 49.1 any application for a licence from a Member where the good character of the Member must be determined by means of a hearing;

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- 49.2 any application for a licence from a Member in respect of whom the Board has directed that a hearing be held to determine whether the Member has fulfilled the qualifications to be licensed as set out in the *Public Accounting Act, 2004*, the regulations and PAC Standards made under that Act and in the bylaws or regulations;
- 49.3 any application for a public accounting licence from a Member who is licensed to practice public accounting in a jurisdiction outside Ontario; and
- 49.4 any other matter related to public accounting licensing that is referred to it by the Council or by the Board.

Review Jurisdiction

- 50. The Membership Committee shall have the power to consider requests for review of decisions of the Board made pursuant to section 27.
- 51. On a review, the Membership Committee shall have the power to refer an application back to the Board for reconsideration if the Committee determines that one or more of the following circumstances exists:
 - 51.1 the Board failed to follow appropriate procedures in arriving at its decision;
 - 51.2 there is reason to suspect a lack of independence on the part of any member of the Board who participated in the decision; or
 - 51.3 the Board did not give due consideration to all of the evidence available in arriving at its decision.
- 52. The decision of the Membership Committee on a review is final.

Appeal Jurisdiction

- 53. A Member or professional corporation may appeal a decision of the Membership Committee made pursuant to section 44.
- 54. No member of the Membership Committee who participated in the deliberations or decision in a matter shall participate in the appeal of that matter.
- 55. A decision of the Membership Committee on an appeal is final.

Procedure before the Membership Committee

- 56. All proceedings before the Membership Committee shall be conducted in accordance with the Rules of Practice and Procedure with necessary modifications thereto.
- 57. All proceedings before the Membership Committee shall be in writing unless ordered otherwise.
- 58. The parties to a proceeding before the Membership Committee shall be the applicant and the Institute.

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF ONTARIO

**RULES OF
PROFESSIONAL
CONDUCT**

Adopted or continued under the authority of Section 63 and Section 65 of the *Chartered Accountants Act, 2010*, S.O. 2010, Chapter 6, Schedule C and the bylaws of the Institute as amended from time to time.

**THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF ONTARIO**

RULES OF PROFESSIONAL CONDUCT

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

RULES OF PROFESSIONAL CONDUCT:

Completely revised rules of professional conduct were approved by the members on June 11, 1973 through the passing of the First Bylaw of 1973. The relevant part of that bylaw appears below, including the transitional provision in respect of the former rules.

FIRST BYLAW OF 1973

BE IT ENACTED AND IT IS HEREBY ENACTED as the First Bylaw of 1973 of THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO (hereinafter called "the Institute") as follows:

- 1 (a) The rules of professional conduct in the form attached hereto and marked Appendix "A" are hereby adopted as the rules of professional conduct of the Institute.
(b) The rules of professional conduct existing immediately before these rules take effect are repealed, provided that the repeal of such rules shall not affect their previous operation nor that of any right, privilege, liability or obligation acquired, accrued, accruing or incurred under the repealed rules; and any investigation proceeding or remedy relating to disciplinary matters arising previous to the coming into force of these rules may be instituted, continued or enforced or any penalty or punishment may be imposed as if the repealed rules had not been repealed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

RULES OF PROFESSIONAL CONDUCT*

Adopted or continued under the authority of Section 63 and Section 65 of the *Chartered Accountants Act, 2010*, S.O. 2010, Chapter 6, Schedule C and the bylaws of the Institute as amended from time to time. Amendments of the rules of professional conduct to make them applicable to firms took effect December 6, 2000.

**Being Appendix "A" to the First Bylaw of 1973, including any revisions from time to time.*

FOREWORD

The Foreword to the rules of professional conduct (or, rules) sets out the philosophy that underlies the rules governing the chartered accountant's responsibilities to those to whom professional services are provided, to the public and to colleagues, in respect of

- characteristics of a profession;
- fundamental principles governing conduct;
- ethical conflict resolution;
- fiduciary duty;
- personal character and ethical conduct;
- application of the rules;
- principles governing the responsibilities of firms; and
- interpretation of the rules.

The rules of professional conduct, comprehensive in their scope, practical in application and addressed to high moral standards, serve not only as a guide to the profession itself but as a source of assurance of the profession's concern for the public it serves. It is a mark of a profession that there is a voluntary assumption, by those who comprise it -- the professional community -- of ethical principles which are aimed, first and foremost, at protection of the public and, second, at achieving orderly and courteous conduct within the profession. It is to these purposes that the Institute's rules are directed.

Characteristics of a profession

The rules of professional conduct presume the existence of a profession. Since the word "profession" has lost some of its earlier precision, through widespread application, it is worthwhile reviewing the characteristics which mark a calling as professional in the traditional sense. Much has been written on the subject and court cases have revolved around it. The weight of the authorities, however, identifies the following distinguishing elements:

- there is mastery by the practitioners of a particular intellectual skill, acquired by lengthy training and education;
- the traditional foundation of the calling rests in public practice -- the application of the acquired skill to the affairs of others for a fee;

- the calling centres on the provision of personal services rather than entrepreneurial dealing in goods;
- there is an outlook, in the practice of the calling, which is essentially objective;
- there is acceptance by the practitioners of a responsibility to subordinate personal interests to those of the public good;
- there exists a developed and independent society or institute, comprising the members of the calling, which sets and maintains standards of qualification, attests to the competence of the individual practitioner and safeguards and develops the skills and standards of the calling;
- there is a specialized code of ethical conduct, laid down and enforced by that society or institute, designed principally for the protection of the public;
- there is a belief, on the part of those engaged in the calling, in the virtue of interchange of views, and in a duty to contribute to the development of their calling, adding to its knowledge and sharing advances in knowledge and technique with their fellow members.

By these criteria chartered accountancy is a profession.

It is essential to recognize that a profession does not cease to be a profession because a proportion of its members enter salaried private employment. These members continue to belong to the profession and to be subject to the rules of professional conduct. It should be recognized that some members of the profession might acquire the required skills outside of public practice.

Fundamental principles governing conduct

The rules of professional conduct, as a whole, flow from the special obligations embraced by the chartered accountant. The reliance of the public, generally, and the business community, in particular, on sound and fair financial reporting and competent advice on business affairs -- and the economic importance of that reporting and advice -- impose these special obligations on the profession. They also establish, firmly, the profession's social usefulness.

To protect the public and to maintain the reputation of the profession, the rules apply, as appropriate, to members of the profession, students and firms of chartered accountants. The application of the rules of professional conduct to firms is discussed later in this Foreword.

The rules of professional conduct are derived from five fundamental principles of ethics - statements of accepted conduct whose soundness is, for the most part, self-evident and are as follows:

Professional Behaviour

Members conduct themselves at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest.

In doing so, members are expected to avoid any action that would discredit the profession.

While there are business considerations involved in the creation and development of a professional practice, a member's practice should be based primarily upon a reputation for professional excellence. A member is expected to act in relation to other members with the courtesy and consideration he or she would expect to be accorded by them.

Integrity and Due Care

Members perform professional services with integrity and due care.

Members are expected to be straightforward, honest and fair dealing in all professional relationships. They are also expected to act diligently and in accordance with applicable technical and professional standards when providing professional services. Diligence includes the responsibility to act, in respect of an engagement, carefully, thoroughly, and on a timely basis. Members are required to ensure that those performing professional services under their authority have adequate training and supervision.

Professional Competence

Members maintain their professional skills and competence by keeping informed of, and complying with, developments in their professional standards.

The public expects the accounting profession to maintain a high level of competence. This underscores the need for maintaining individual professional skill and competence by keeping abreast of and complying with developments in the professional standards and pertinent legislation in all functions where a member practises, or is relied upon because of his or her calling.

Confidentiality

Members have a duty of confidentiality in respect of information acquired as a result of professional, employment and business relationships and they will not disclose to any third party, without proper cause and specific authority, any information, nor will they exploit such information to their personal advantage or the advantage of a third party.

The principle of confidentiality includes the need to maintain the confidentiality of information within a member's firm or employing organization.

The disclosure of confidential information by a member may be required

or appropriate where such disclosure is:

- Permitted or authorized by the client or employer;
- Required by law; or
- Permitted or required by a professional right or duty, when not prohibited by law.

Objectivity

Members do not allow their professional or business judgment to be compromised by bias, conflict of interest or the undue influence of others.

The public expects that members will bring objectivity and sound professional judgment to their professional services. It thus becomes essential that a member will not subordinate professional judgment to external influences or the will of others.

The public interest in the objectivity of a member engaged to perform an assurance or a specified auditing procedure requires that the member be, and be seen to be, free of influences which would impair the member's objectivity. Accordingly, the rules specifically require a member who engages to perform an assurance or specified auditing procedures engagement to be independent. The ethical standard of independence requires the member to be and remain free of any influence, interest or relationship, in respect of the client's affairs, which impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity.

As well, the rules specifically require that a member, before accepting or continuing an engagement, determine whether there is any restriction, influence, interest or relationship which, in respect of the proposed engagement, would cause a reasonable observer to conclude that there is or will be a conflict of interest. If there were to be such a conflict, the member is required to decline or discontinue the particular engagement unless there are accepted conflict management techniques which, with the informed consent of the affected client or clients, permit the member to accept or continue the engagement.

With respect to both independence and conflicts of interest, the profession employs the criterion of whether a reasonable observer would conclude that a specified situation or circumstance posed an unacceptable threat to a member's objectivity and professional judgment. Only then can public confidence in the objectivity and integrity of the member be sustained, and it is upon this public confidence that the reputation and usefulness of the profession rest. The reasonable observer should be regarded as a hypothetical individual who has knowledge of the facts which the member knew or ought to have known, and applies judgment objectively with integrity and due care.

Ethical conflict resolution

Circumstances may arise where a member encounters and is required to resolve a conflict in the application of the fundamental principles or compliance with the rules derived therefrom.

When initiating a process for the resolution of an ethical conflict, a member should consider, either individually or together with others, as part of the resolution process, the following:

- Relevant facts;
- Ethical issues involved;
- Fundamental principles and rules applicable to the matter in question;
- Established internal procedures; and
- Alternative courses of action.

Having considered these issues, the member should determine the appropriate course of action that is consistent with the fundamental principles and rules identified as being pertinent. The member should also weigh the consequences of each possible course of action. If the matter remains unresolved, the member should consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.

Where a matter involves a conflict with, or within, an organization, a member should also consider consulting with those charged with governance of the organization, such as the board of directors or the audit committee.

It would be in the best interests of the member to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.

If a significant conflict cannot be resolved, a member may wish to obtain guidance on ethical issues without breaching confidentiality from the Institute or legal advisors. For example, a member may have encountered a fraud, the reporting of which could breach the member's responsibility to respect confidentiality. The member is advised to consider obtaining legal advice to determine whether there is a requirement to report.

If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, the member should, where ethically possible, refuse to remain associated with the matter creating the conflict. The member may determine that, in the circumstances, it is appropriate to withdraw from the particular engagement team or assignment, or to resign altogether from the engagement, the firm or the employing organization in a manner consistent with the rules of professional conduct.

Fiduciary duty

Members have duties to their clients that arise from the nature of the relationships with the clients. Members have a professional duty to act with integrity and due care and a contractual duty to provide services as defined by the terms of the engagement. In certain cases, the relationship between a member and a client could also be one that the courts describe as a fiduciary relationship that gives rise to fiduciary duties.

The concepts of fiduciary relationship and fiduciary duty are derived from the law of trusts. The obligations of a fiduciary can be onerous and the implications of being in breach of a fiduciary duty can be significant.

In determining whether a fiduciary relationship does exist, a court will look at all of the factors but, in a professional engagement situation, will particularly focus on the purpose and nature of the service being provided; the extent of the reliance which the client places on the member; any lack of sophistication of the client; the vulnerability of the client to the influence of the member; and, the discretionary authority, if any, granted by the client to the member. The court will also consider the extent of the disclosure to the client of the member's interest in the matter and whether the member has put himself or herself in a position of conflict or has an opportunity to receive a benefit unknown to the client.

Courts have held that, absent other circumstances, an auditor is not a fiduciary in the typical financial statement audit engagement (in keeping with the standard statutory purpose). However, when a member of the firm provides non-audit advisory services to an audit client and when criteria for a fiduciary relationship exist, the audit firm may be found to be a fiduciary. A service provider is more likely to be found to be a fiduciary in professional engagements such as forensic or investigative accounting and investment advisory services.

Members must also note that a member who is an employee may, depending on the particular facts and circumstances, have a fiduciary relationship with his or her employer.

If there is any question as to whether a fiduciary relationship exists, legal advice should be obtained.

The specific duties that a court might find applicable to a fiduciary will vary depending on the particular facts and circumstances. In general, a fiduciary relationship requires the fiduciary to act in the utmost good faith on behalf of the client. As such, a fiduciary must not place himself or herself in a position where his or her interests conflict with that of the client; nor can a fiduciary profit from his or her position at the expense of the client. A fiduciary must use information obtained in confidence from a client only for the benefit of the client and must not use it for personal advantage or the benefit of another person. A fiduciary cannot act at the same time both for and against the same client and must make available to a client all of the information that is relevant to the client's affairs,

unless these requirements are modified with the client's agreement. Other duties may be found to pertain but are less likely to apply to public accountants.

It is important for members to recognize that not all fiduciary relationships give rise to all fiduciary duties. The terms of the engagement, including explicit provisions for the disclosure of potential conflicts and/or the use of institutional mechanisms to maintain confidentiality are fundamentally important to the nature of the relationship and the duties that a court will find to apply in a particular case.

The responsibilities owed to an existing client are more comprehensive than the responsibilities owed to a former client. The responsibility owed to a former client is generally limited to the duty of confidentiality.

Some, but not all, fiduciary duties are also professional obligations under the rules of professional conduct. The existence of professional obligations that are similar to fiduciary duties is not in and of itself determinative as to whether a fiduciary relationship exists between a member and his or her client. The rules require that members maintain confidentiality, refrain from taking undisclosed profits and avoid conflicts of interest in all client relationships. While the law recognizes that only certain professional engagements give rise to fiduciary duties, members must be aware that they are subject to the rules of professional conduct in all engagements.

Personal character and ethical conduct

The rules of professional conduct which follow are based on the principles expressed above in this Foreword. These principles have emerged out of the collective experience of the profession as it has sought, down the years, to demonstrate its sense of responsibility to the public it serves. By their commitment to honourable conduct, members of the Institute, throughout its history, have given particular meaning and worth to the designation "chartered accountant". They have done so by recognizing that rules of professional conduct, which are enforceable by sanctions, do not by their nature state the most that is expected of members, but simply the least -- the rules thus define a minimum level of acceptable conduct. Ethical conduct in its highest sense, however, is a product of personal character -- an acknowledgement by the individual that the standard to be observed goes beyond that of simply conforming to the letter of a list of prohibitions.

Application of the rules of professional conduct

- The rules of professional conduct apply to all members irrespective of the type of professional services being provided. Some rules have particular relevance to members engaged in the practice of public accounting. The rules and the guidance in this Foreword also apply, as appropriate, to students and, as discussed below, to firms.

- A member not engaged in the practice of public accounting must observe these rules except where the wording of any rule makes it clear that it relates only to the practice of public accounting or there is a specific exception made in a particular rule.
- The term "professional services" also applies to members who are not engaged in the practice of public accounting. In this context, it includes those of the member's activities where the public or his or her associates are entitled to rely on membership in the Institute as giving the member particular competence and requiring due care, integrity and an objective state of mind.
- Members are responsible to the Institute for compliance with these rules by others who are either under their supervision or share with them proprietary interest in a firm or other enterprise. In this regard, a member must not permit others to carry out on his or her behalf acts which if carried out by the member would place him or her in violation of the rules.
- Members and students who reside outside Ontario continue to be subject to the rules of professional conduct in the province or provinces of membership. They may also be subject to the rules of the organized accounting profession in the jurisdiction in which they reside. Should the rules in two or more jurisdictions conflict, a member will, where possible, observe the higher or stronger of the conflicting rules and, where that is not possible, he or she will consider the ethical conflict guidance set out above.

Principles governing the responsibilities of firms

Firms of chartered accountants, being comprised of members of the profession, have a responsibility which they share with their individual members to provide services that maintain the profession's reputation for competence and integrity. It is clear that the manner in which firms conduct their affairs and provide services has an importance that goes well beyond the establishment of their individual reputations; it affects the public perception of the chartered accountancy profession as a whole.

This broader responsibility requires that firms be accountable to the profession and the public in respect of ethical conduct and professional competence. The accountability of firms is formalized by bringing them within the authority of the rules of professional conduct in a manner that is similar to that for members but which also appropriately recognizes that the responsibility of firms as business organizations differs in important respects from that of the individual members carrying on professional engagements on their behalf.

The responsibility of firms to the profession is fulfilled in the first instance by establishing, maintaining and upholding appropriate policies and procedures designed to ensure that their members provide professional services in a manner that complies with the standards of conduct and competence prescribed in these rules.

The accountability of firms is based on the recognition that the services they provide are carried out by members of the profession who, through their individual and collective actions and through the exercise of professional judgment, are expected at all times to comply with these rules and to adhere to the generally accepted standards of practice of the profession. Depending on the circumstances and the particular standard of competence or conduct, therefore, a firm's accountability for a failure to comply with the rules may be shared with a member or members of the firm. It is acknowledged in this regard that a firm cannot be held accountable for the conduct of its members who do not comply with these rules, where the firm has done all that it could be reasonably expected to have done to ensure that such members do comply with the rules.

A firm will be held accountable, as an organization, for its professional conduct and standards in those instances where:

- the firm has policies and/or procedures which are inconsistent with the rules; or
- the breach of any rule by any member of the firm is found to be related to the absence of quality control procedures or to the existence of quality control procedures that are inadequate for the type of practice in which it is engaged; or
- the firm is identified with a conduct or the provision of professional services that is in breach of the rules and it is unclear which member(s) within the firm are responsible for such breach; or
- the conduct that breaches the rules was authorized, initiated, implemented or condoned by the firm prior to or at the time it takes place; or
- the conduct that breaches the rules is condoned or concealed by the firm after it learns of it; or
- the firm did not take appropriate action in response to becoming aware of any conduct that breaches the rules; or
- there are repeated instances of breaches of the rules by member(s) of the firm.

In keeping with the principle that firms have a responsibility to maintain the good reputation of the profession, it is only appropriate in these circumstances that the firm and the individual member(s) be the subject of investigation and disciplinary sanction.

The inclusion of firms within the authority of the rules does not presume that an investigation against a firm automatically calls into question the character, competence or conduct of all of the members of the firm. Indeed, there is an obligation on the part of those given responsibility for the enforcement of the profession's standards to ensure that any investigation of a firm be restricted to those who should properly be the subject of the investigation and resulting disciplinary sanction. This involves recognizing that firms may have many partners and/or offices and/or a number of departments or units within the offices, whether or not they are geographically distinct. In some circumstances, therefore, accountability for a failure to comply with the rules will rest solely with the individual partners of a firm who had knowledge of the matter that is the

reason for making allegations against the firm. In other circumstances, the accountability will rest with identifiable departments or units within a firm, or with a firm's executive committee, management committee or equivalent group.

Interpretation of the rules of professional conduct

In interpreting the rules, they are to be read in light of the Foreword to the rules and the definitions in and provisions of the bylaws of the Institute.

100 – GENERAL

101 Compliance with bylaws, regulations and rules

Members, students and firms shall comply with the bylaws, regulations and rules of professional conduct of the Institute as they may be from time to time and with any order or resolution of the Council or officers of the Institute under the bylaws.

102 Matters to be reported to the Institute

.1 Illegal Activities

Members, Students, Applicants, membership candidates or firms shall promptly inform the Institute after having, in any jurisdiction, been:

- (a) convicted of an offence of fraud, theft, forgery, money-laundering, extortion, counterfeiting, criminal organization activities, charging criminal interest rates, financing terrorism or similar offences related to financial matters, or convicted of an offence of conspiring or attempting to commit such offences;
- (b) convicted of any other serious criminal offence that is not related to financial matters but which involves conduct that is of such a nature that it diminishes the good reputation of the profession and its ability to serve the public interest;
- (c) convicted of any criminal offence that is a repeat offence; or
- (d) found guilty of a violation of the provisions of any securities legislation or having entered into a settlement agreement with respect to such matters;
- (e) found guilty of a violation of the provisions of any tax legislation that involves, explicitly or implicitly, dishonesty on the part of the Member, Student, Applicant, membership candidate or firm, or having entered into a settlement agreement with respect to such matters
- (f) discharged absolutely or upon condition after pleading guilty to or being found guilty of an offence described in (a), (b), (c), (d) or (e) above.

.2 Other provincial Institutes

Members, or firms, as applicable, shall promptly inform the Institute after having, in relation to a disciplinary or similar process of a provincial institute,

- (a) been found guilty of a failure to comply with the requirements of that provincial institute,
- (b) entered into a settlement agreement with that provincial institute with respect to a matter referred to in (a), or
- (c) resigned from membership in or voluntarily deregistered from that provincial institute, where permitted to do so, in order to resolve a disciplinary matter.

.3 Other professional regulatory bodies

Members, Students, Applicants, membership candidates or firms shall promptly inform the Institute after having, in any jurisdiction in relation to a disciplinary or similar process of another professional regulatory body,

- (a) been found guilty of a failure to comply with the requirements of that professional regulatory body,
- (b) entered into a settlement agreement with that professional regulatory body with respect to a matter referred to in (a), or
- (c) resigned from membership in or voluntarily deregistered from that professional regulatory body, where permitted to do so, in order to resolve a disciplinary matter.

.4 Other regulatory bodies

Members, Students, Applicants, membership candidates or firms shall promptly inform the Institute after having, in any jurisdiction in relation to a disciplinary or similar process of a regulatory body other than a provincial institute or professional regulatory body, where the matter involves acting in a professional capacity, relates to professional skills or involves reliance on membership in or association with the Institute or a provincial institute,

- (a) been found guilty of a failure to comply with the requirements of that other regulatory body, or
- (b) entered into a settlement agreement with that other regulatory body with respect to a matter referred to in (a).

103 False or misleading applications

- (a) A member or student or any person who applies to become a member or student shall not sign or associate himself or herself with any letter, report, statement or representation relating to the application for admission or re-admission to membership, or relating to the application for registration or re-registration as a student, which the applicant knows, or should know, is false or misleading.
- (b) A member who applies to be licensed as a public accountant or a licensee who applies to have a licence renewed shall not sign or associate with any letter, report, statement or representation relating to the application to be licensed or to have a licence renewed which the applicant knows, or should know, is false or misleading.

104 Requirement to co-operate

104.1 A member, student or firm shall co-operate with the regulatory process of the Institute.

- .2** A member, student or firm shall
 - (a) promptly reply in writing to any communication from the Institute in which a written reply is specifically requested;
 - (b) promptly produce documents when required to do so by the Institute;
 - (c) attend in person in the manner requested when required to do so by the Institute in relation to the matters referred to in Rule 104.1.

105 Hindrance, inappropriate influence and intimidation

105.1 A member, student or firm shall not, directly or indirectly hinder any regulatory process of the Institute or otherwise attempt to exert inappropriate influence or pressure on the outcome of a regulatory matter of the Institute.

- .2** A member, student or firm shall not threaten or intimidate a complainant, witness, or any other person related to a regulatory matter of the Institute nor shall a member, student or firm threaten or intimidate officers, staff, volunteers or agents of the Institute acting on behalf of the Institute.

200 – STANDARDS OF CONDUCT AFFECTING THE PUBLIC INTEREST

201 Maintenance of reputation of profession

- .1 A Member, Student, Applicant, membership candidate or firm shall act at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest.
- .2 There is a rebuttable presumption that a Member, Student, Applicant, membership candidate or firm has failed to maintain the good reputation of the profession and its ability to serve the public interest when the Member, Student, Applicant, membership candidate or firm is the subject of an Allegation under Rule 201.1 on account of any matter referred to in Rule 102.1(a), (d) and (e) and a certified copy of a document which provides proof of guilt in respect of such matters is filed with the discipline or appeal committee. For purposes of this Rule, documents which provide proof of guilt include a certificate of conviction, order, decision, or settlement agreement which includes an admission of guilt or other similar relevant document.
- .3 There is a rebuttable presumption that a member or firm has failed to maintain the good reputation of the profession and its ability to serve the public interest when the member or firm is the subject of an Allegation under Rule 201.1 on account of a matter referred to in Rule 102.2 where the resolution of the matter includes
 - (a) a finding of guilt by, or a settlement agreement with, another provincial institute or another designated body under the *Public Accounting Act, 2004*, and
 - (i) the membership of the Member was suspended or revoked, or the Member was expelled, or the Member resigned from membership in order to resolve a disciplinary matter, or had restrictions placed on practice rights; or
 - (ii) as applicable, the firm was deregistered or ceased to be registered in order to resolve a disciplinary matter, or had restrictions placed on practice rights; or
 - (b) a finding of guilt by, or an admission of guilt by the member or firm to, another provincial institute or another designated body under the *Public Accounting Act, 2004*, that Rule 201.1 was breached by the member or firm;and a certified copy of the order, decision, settlement agreement or other relevant document from the other provincial institute or other designated body is filed with the discipline or appeal committee.

.4 Advocacy services

Before accepting an engagement to act as an advocate, a member or firm shall ensure that:

- (a) the service is not an assurance service or specified auditing procedures engagement;

- (b) the advocacy role is apparent in the circumstances;
- (c) the position of the client is supportable; and
- (d) the position of the client can be argued or supported by the member or firm without the member or firm failing to comply with the independence standards required by Rule 204 for other services which the member or firm has engaged to provide.

202.1 Integrity and due care

A member, student or firm shall perform professional services with integrity and due care.

202.2 Objectivity

A member or student shall perform his or her professional services with an objective state of mind.

203.1 Professional competence

A member shall sustain professional competence by keeping informed of, and complying with, developments in professional standards in all functions in which the member practises or is relied upon because of the member's calling.

204 Independence

Definitions

For the purposes of Rules 204.1 to 204.8 and the related Council Interpretations: "accounting role" means a position in which a person may or does exercise more than minimal influence over:

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

"assurance client" means an entity in respect of which a member or firm has been engaged to perform an assurance engagement.

"assurance engagement" means an assurance engagement as contemplated in the *CICA Handbook – Assurance*.

"audit client" means an entity in respect of which a member or firm has been engaged to perform an audit of the financial statements. In the application of Rule 204.4(1) to (12) "audit client" includes its related entities, and the reference to an assurance client, a client or an entity that is an audit client shall be read as including all related entities of the assurance client, client or entity as the case may be.

"audit committee" means the audit committee of the entity, or if there is no audit committee another governance body which has the duties and responsibilities normally granted to an audit committee.

"audit engagement" means an engagement to audit financial statements as contemplated in the *CICA Handbook – Assurance*.

"audit partner" means a person who is a partner in a firm or a person who has equivalent responsibility, other than a specialist or technical partner or equivalent who consults with others on the engagement team regarding technical or industry-specific issues, transactions or events, who is a member of the audit engagement team having responsibility for decision-making on significant auditing, accounting, and reporting matters that affect the financial statements, or who maintains regular contact with management and the audit committee, and includes the following:

- (a) the lead engagement partner;
- (b) the engagement quality control reviewer;
- (c) another partner who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or interim financial information of the client; and
- (d) a subsidiary entity engagement partner.

"clearly insignificant" means trivial and inconsequential.

"close family" means a parent, non-dependent child or sibling.

"direct financial interest" means 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);
- (b) beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control;
- (c) owned through an investment club or by a private mutual fund in which

the individual participates in the investment decisions.

"engagement quality control reviewer", often referred to as reviewing, concurring or second partner, means the audit partner who, prior to issuance of the audit report, evaluates the significant judgments made by the lead engagement partner and other persons on an engagement team, the conclusions reached in formulating the audit report and other significant matters that have come to the partner's attention.

"engagement team" means:

- (a) each member of the firm participating in the assurance engagement;
- (b) all other members of 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. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through to the firm's chief executive officer;
 - (ii) those who provide consultation regarding technical or industry-specific issues, transactions or events for the assurance engagement; and
 - (iii) those who provide quality control for the assurance engagement;
- and
- (c) in the case of an audit client, all persons in a network firm who can directly influence the outcome of the audit engagement.

"financial interest" includes a direct or indirect ownership 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 reporting oversight role" means a position in which a person may or does exercise influence over:

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

"firm" means a sole practitioner, partnership, professional corporation or association of members who carries or carry on the practice of public accounting, or carries or carry on related activities as defined by the Council.

"fund manager" means, with respect to a mutual fund, an entity that is responsible for investing the mutual fund's assets, managing its portfolio trading and providing it with administrative and other services, pursuant to a management contract.

"immediate family" means a spouse (or equivalent) or dependant.

"indirect financial interest" means a financial interest beneficially owned through a collective investment vehicle such as a mutual fund, estate, trust or other intermediary over which the beneficial owner has no control.

"lead engagement partner" means the audit partner having primary responsibility for an audit or review engagement.

"market capitalization" in respect of a particular fiscal year means the average market price of all outstanding listed securities and publicly traded debt of the entity measured at the end of each of the first, second and third quarters of the prior fiscal year and the year-end of the second prior fiscal year.

"member of a firm" or **"member of the firm"**, as the case may be, means a person, whether or not a member of a provincial Institute or Ordre, who is:

- (a) a sole practitioner;
- (b) a partner, professional employee or student of the firm;
- (c) an individual engaged under contract by the firm to provide services that might otherwise be provided by a partner or professional employee of a firm;
- (d) an individual who provides to the firm services which are referred to in Rule 204.1 and includes any corporate or other entity through which the individual contracts to provide such services; or
- (e) a retired partner of the firm who retains a close association with the firm.

"mutual fund" means a mutual fund that is a reporting issuer under the applicable Canadian provincial or territorial securities legislation.

"mutual fund complex" means:

- (a) a mutual fund that has the same fund manager as a client;
- (b) a mutual fund that has a fund manager that is controlled by the fund manager of a client; and
- (c) a mutual fund that has a fund manager that is under common control with the fund manager of a client.

"network firm" means an entity under common control, ownership or management with a firm, or any entity that a reasonable observer who has knowledge of the facts would conclude to be part of a firm nationally or internationally. A network firm does not include an entity that constitutes a related business or practice, as defined, in Canada.

"office" means a distinct sub-group of a firm, whether organized on geographical or practice lines.

"related entity" means:

- (a) in the case of a client that is a reporting issuer, an entity that has control over a client, or over which the client has control, or that is under common control with a client, including the client's parent company and any subsidiaries;
- (b) in the case of a client that is not a reporting issuer:
 - (i) an entity over which the client has control;
 - (ii) an entity that has control over the client provided the client is material to such entity; and
 - (iii) an entity that is under common control with the client provided such entity and the client are both material to the controlling entity;
- (c) in any case, an entity over which a client has significant influence, unless the entity is not material to the client; and
- (d) in any case, an entity that has significant influence over a client, unless the client is not material to the entity.

"reporting issuer" means an entity that is deemed to be a reporting issuer under the applicable Canadian provincial or territorial securities legislation, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares, units or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

- (a) the term "market capitalization" shall be read as referring to the market price of all outstanding listed securities and publicly traded debt

- measured using the closing price on the day of the public offering; and
- (b) the term "total assets" shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization.

"review client" means an entity in respect of which a member or firm conducts a review engagement. In the application of Rule 204.4(1) to (12) "review client" includes its related entities, and the reference to an assurance client, a client or an entity that is a review client shall be read as including all related entities of the assurance client, client or entity, as the case may be.

"review engagement" means an engagement to review financial statements as contemplated in the *CICA Handbook – Assurance*.

"specified auditing procedures engagement" means an engagement to perform specified auditing procedures contemplated in the *CICA Handbook – Assurance*.

"subsidiary entity engagement partner" means the lead engagement partner for an audit engagement related to the annual financial statements or interim financial information of an entity that is a subsidiary or joint venture of an audit client and whose assets or revenues constitute 20% or more of the assets or revenues of the audit client's respective consolidated assets or revenues.

"total assets" in respect of a particular fiscal year means the amount of total assets presented on the third quarter of the prior fiscal year's financial statements prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange. In the case of an entity that is not required to file quarterly financial statements, total assets in respect of a particular fiscal year means the amount of total assets presented on the annual financial statements of the second previous fiscal year prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange.

204.1 Assurance and Specified Auditing Procedures Engagements

A member or firm who engages or participates in an engagement:

- (a) to issue a written communication under the terms of an assurance engagement; or
- (b) to issue a report on the results of applying specified auditing procedures;

shall be and remain independent such that the member, firm and members of the firm shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or a member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member, firm or a member of the firm.

204.2 Identification of Threats and Safeguards

A member or firm who is required to be independent pursuant to Rule 204.1 shall, in respect of the particular engagement, identify threats to

independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to reduce the threats to an acceptable level. Where safeguards are not available to reduce the threat or threats to an acceptable level, the member or firm shall eliminate the activity, interest or relationship creating the threat or threats, or refuse to accept or continue the engagement.

204.3 Documentation

A member or firm who, in accordance with Rule 204.2, has identified a threat that is not clearly insignificant, shall document a decision to accept or continue the particular engagement. The documentation shall include the following information: a description of the nature of the engagement;

- (a) the threat identified;
- (b) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and
- (c) an explanation of how, in the member's or firm's professional judgment, the safeguards eliminate the threat or reduce it to an acceptable level.

204.4 Specific Prohibitions, Assurance and Specified Auditing Procedures Engagements

In addition to complying with Rules 204.1, 204.2, 204.3, 204.5 and 204.6 a member or firm shall comply with the following specific prohibitions:

Financial interests

- (1) (a) A member or student shall not participate on the engagement team for an assurance client if the member or student, or the immediate family of the member or student, holds a direct financial interest or a material indirect financial interest in the client.

(b) A member or student shall not participate on the engagement team for an assurance client if the member or student, or the immediate family of the member or student, holds, as trustee, a direct financial interest or a material indirect financial interest in the client.
- (2) A member or firm shall not perform an audit or review engagement for an entity if the member, firm or a network firm, has a direct financial interest or a material indirect financial interest in the entity.
- (3) A member or firm shall not perform an audit or review engagement for an entity if a pension or other retirement plan of the firm or network firm has a direct financial interest or a material indirect financial interest in the entity.
- (4) A member who is a partner of a firm and who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not practice in the same office as the lead engagement partner for the client.
- (5) A member who is a partner or managerial employee of a firm and

who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not provide a non-assurance service to the client, unless the non-assurance service is clearly insignificant.

- (6) (a) A member or firm shall not perform an audit or review engagement for an entity (the first entity) if the firm or a network firm has a financial interest in a second entity, and the member or firm knows that the first entity or a director, officer or controlling owner of the first entity also has a financial interest in the second entity, unless the respective financial interests of the firm or network firm and the first entity, the director, officer or controlling owner of the first entity are immaterial and the first entity cannot exercise significant influence over the second entity.
- (b) A member or student shall not participate on an engagement team for an audit or review client if the member or student has a financial interest in an entity and the member or student knows that the client or a director, officer or controlling owner of the client also has a financial interest in the entity, unless the respective financial interests of the member or student and the client, the director, officer or controlling owner of the client are immaterial and the client cannot exercise significant influence over the entity.
- (7) (a) A member or firm shall not perform an audit or review engagement for an entity if a partner or professional employee of the firm owns, or such person's immediate family owns, more than 0.1% of the securities of the entity or controls the entity.
- (b) A member who is a partner or professional employee of a firm shall not own more than 0.1% of the securities of, or control, an audit or review client of the firm.
- (8) A member or student shall not participate on the engagement team of an audit or review client if the member or student knows that his or her close family owns more than 0.1% of the securities of the client or controls the client.
- (9) A member or firm shall not perform an assurance engagement for an entity that is not an audit or review client if the member or firm holds:
- (i) a direct financial interest or a material indirect financial interest in the entity; or
 - (ii) a material financial interest in another entity that has a controlling interest in the first entity.

Loans and guarantees

- (10)(a) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by the client, except when the client is a bank or similar financial institution and the loan or guarantee is immaterial to the firm, the

network firm, and the client, and the loan or guarantee is made under normal commercial terms and conditions and is in good standing.

- (b) A member or firm shall not perform an assurance engagement for a client that is not a bank or similar financial institution if the firm, or a network firm in the case of an audit or review client, has a loan to the client.
 - (c) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, guarantees a loan of the client.
- (11)(a) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by:
- (iv) an officer or director of the assurance client; or
 - (v) a shareholder of the assurance client who owns more than 10% of the equity securities of the client.
- (b) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan to or guarantees a loan of:
- (i) an officer or director of the assurance client; or
 - (ii) a shareholder of the assurance client who owns more than 10% of the equity securities of the client.
- (12)(a) A member or student who has a loan from or has a loan guaranteed by:
- (i) an assurance client, except a client that is a bank or similar financial institution where the loan or guarantee is made under normal commercial terms and conditions and the loan is in good standing,
 - (ii) an officer or director of the client, or
 - (iii) a shareholder of the client who owns more than 10% of the equity securities of the client,
- shall not participate on the engagement team for the client.
- (b) A member or student who has a loan to or guarantees the borrowing of
- (i) an assurance client that is not bank or similar financial institution;
 - (ii) an officer or director of the client; or
 - (iii) a shareholder of the client who owns more than 10% of the equity securities of the client
- shall not participate on the engagement team for the client.

Close business relationships

- (13)(a) A member or firm shall not perform an audit or review engagement for an entity if the firm, or a network firm, has a close business relationship with the entity or its management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly

insignificant to the firm or network firm and the entity or its management, as the case may be.

- (b) A member or firm shall not perform an assurance engagement that is not an audit or review engagement if the firm has a close business relationship with the assurance client or its management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm and the client or its management, as the case may be.
- (c) A member or student who has a close business relationship with an assurance client or its management shall not participate on the engagement team for the client unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the member and the client or its management, as the case may be.

Family and personal relationships

- (14) A member or student shall not participate on the engagement team for an assurance client if the member's or student's immediate family is a director or officer of the client or an employee of the client in a position to exert direct and significant influence over the subject matter of the engagement, or was in such a position during any period covered by the engagement.
- (15) A member or student shall not participate on the engagement team for an audit client that is a reporting issuer if the member's or student's close family is in an accounting role or a financial reporting oversight role at the client, or was in such a position during any period covered by the engagement.

Employment with a reporting issuer audit client

- (16) A member or firm shall not perform an audit engagement for a reporting issuer if a person who participated in an audit capacity in an audit of the financial statements of the entity performed by the member or firm has accepted employment in a financial reporting oversight role with respect to the entity until a period of one year has elapsed from the date that the financial statements were filed with the relevant securities regulator or stock exchange.

Recent service with an assurance client

- (17) A member or student shall not participate on an engagement team for an assurance client if the member or student served as an officer or director of the client or was an employee thereof in a position to exert direct and significant influence over the subject matter of the engagement during the period covered by the assurance report.

Serving as an officer or director of an assurance client

- (18) A member or firm shall not perform an assurance engagement for an entity if a member of the firm serves as an officer or director for the entity.

Serving as an officer or director of an audit or review client

- (19)(a) A member or firm shall not perform an audit or review engagement for an entity if a member of a network firm serves as an officer or a director of the entity other than, in the case of an entity that is not a reporting issuer, serving as company secretary and the practice is specifically permitted under local law, professional rules or practice, and the duties and functions undertaken are limited to those of a routine and formal administrative nature.
- (b) A member or firm shall not perform an audit engagement for a reporting issuer, or a related entity, if a member of the firm or a network firm serves as an officer or a director of a related entity of the reporting issuer.

Long association of senior personnel with a reporting issuer audit client

- (20)(a)
- (i) A member shall not continue as the lead engagement partner or the engagement quality control reviewer on an audit engagement of a reporting issuer for more than seven years in total, and shall not thereafter resume or assume either such role until five years have elapsed.
 - (ii) In the case of an audit engagement of a reporting issuer that is a mutual fund, the lead engagement partner and the engagement quality control reviewer shall not thereafter resume or assume either such role with the reporting issuer or another mutual fund that is in the same mutual fund complex as the reporting issuer until the five-year period has elapsed.
- (20)(b)
- (i) A member, who is an audit partner on an audit engagement of a reporting issuer, other than an audit partner referred to in Rule 204.4(20)(a), who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or the interim financial information of the reporting issuer or who is a subsidiary engagement partner with respect to the entity shall not continue in such role or roles for more than seven years in total and shall not thereafter perform the role of audit partner of the reporting issuer until a further two years have elapsed.
 - (ii) In the case of an audit engagement of a reporting issuer that is a mutual fund, the audit partner shall not thereafter perform the role of audit partner of the reporting issuer or

another mutual fund that has the same fund complex as the reporting issuer until the further two-year period has elapsed.

Audit committee approval of services to a reporting issuer audit client

(21) A member or firm shall not provide a professional service to an audit client that is a reporting issuer, or to a subsidiary thereof, without the prior approval of the reporting issuer's audit committee.

Performance of management functions for an assurance client

- (22)(a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, a member of the firm makes a management decision or performs a management function for the entity, including:
- (i) authorizing, approving, executing or consummating a transaction;
 - (ii) having or exercising authority on behalf of the entity;
 - (iii) determining which recommendation of the member or firm will be implemented; or
 - (iv) reporting in a management role to those charged with governance of the entity.
- (b) A member or firm shall not perform an audit or review engagement for an entity, if a member of a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, makes a management decision or performs a management function for the entity including any of the services listed in paragraph 22(a)(i) to (iv);
- (c) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, makes a management decision or performs a management function for the entity, or a related entity, including any of the services listed in paragraph 22(a)(i) to (iv).

Preparation of journal entries and source documents

- (23) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm:
- (i) prepares or changes a journal entry, determines or changes an account code or a classification for a transaction or prepares or changes another accounting record without obtaining the approval of management of the entity; or
 - (ii) prepares a source document or originating data, or makes a change to such a document or data.

Preparation of accounting records and financial statements for a

reporting issuer audit client

- (24) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, firm, a network firm or a member of the firm or a network firm provides accounting or bookkeeping services related to the accounting records or financial statements to be audited including:
- (i) maintaining or preparing the entity's, or related entity's, accounting records;
 - (ii) preparing the financial statements or preparing financial statements which form the basis of the financial statements on which the audit report is provided; or
 - (iii) preparing or originating source data underlying such financial statements,
- unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of such financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the accounting or bookkeeping services will be subject to audit procedures.

Provision of valuation services to a reporting issuer audit client

- (25) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, provides a valuation service to the client or the related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the valuation service will be subject to audit procedures.

Provision of actuarial services to a reporting issuer audit client

- (26) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an actuarial service to the client or a related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the actuarial service will be subject to audit procedures.

Provision of internal audit services to a reporting issuer audit client

- (27) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an internal audit service to the client or a related entity, that

relates to the client's, or the related entity's, internal accounting controls, financial systems or financial statements unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the internal audit service will be subject to audit procedures.

Provision of IT system services to a reporting issuer audit client

(28) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides financial information systems design or implementation services and the services involve:

- (i) directly or indirectly operating, or supervising the operation of, the entity's or a related entity's information system, or managing the entity's or a related entity's local area network; or
- (ii) designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the entity's or a related entity's financial statements or other financial information systems taken as a whole;

unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the financial information systems design and implementation services will be subject to audit procedures.

Provision of expert services to a reporting issuer audit client

(29) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an expert opinion or other expert service for the entity or a related entity, or for a legal representative thereof, for the purpose of advocating the entity's or related entity's, interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation.

Provision of legal services to an audit or review client

(30) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the

member, the firm, a network firm or a member of the firm or network firm provides a legal service to the entity in the resolution of a dispute or litigation in circumstances where the matters in dispute or subject to litigation are material in relation to such financial statements.

Provision of legal services to a reporting issuer audit client

- (31) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides a legal service to the entity or a related entity.

Human resource services for a reporting issuer audit client

- (32) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides any of the following services to the entity or a related entity:
- (i) searching for or seeking out prospective candidates for management, executive or director positions;
 - (ii) engaging in psychological testing, or other formal testing or evaluation programs;
 - (iii) undertaking reference checks of prospective candidates for an executive or director position;
 - (iv) acting as a negotiator or mediator on the entity's behalf with respect to employees or future employees with respect to any condition of employment, including position, status or title, compensation or fringe benefits; or
 - (v) recommending or advising the entity or a related entity to hire a specific candidate for a specific job.

Provision of corporate finance and similar activities to an assurance client

- (33)(a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, the firm, or a member of the firm, provides any of the following services to the entity:
- (i) promoting, dealing in or underwriting the entity's securities;
 - (ii) making investment decisions on behalf of the entity or otherwise having discretionary authority over the entity's investments;
 - (iii) executing a transaction to buy or sell the entity's investments; or
 - (iv) having custody of assets of the entity, including taking temporary possession of securities purchased by the entity.
- (b) A firm shall not perform an audit or review engagement for an entity if a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, provides any of the services listed in paragraph 33(a)(i) to (iv) to the entity.
- (c) A firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, provides any of the

services listed in paragraph 33(a)(i) to (iv) to a related entity of the reporting issuer.

Pricing

- (34) A member or firm shall not provide an assurance service for a fee that the member or firm knows is significantly lower than that charged by the predecessor member or firm, or contained in other proposals for the engagement, unless the member or firm can demonstrate:
- (i) that qualified members of the firm have been assigned to the engagement and will devote the appropriate time to it; and
 - (ii) that all applicable assurance standards, guidelines and quality control procedures have been followed.

Compensation of audit partners of a reporting issuer audit client

- (35) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, an audit partner who is on the engagement team for the reporting issuer or a related entity earns or receives compensation based on the audit partner procuring any engagement that is not an assurance engagement from the reporting issuer or a related entity, unless the member firm or the firm has fewer than five audit clients that are reporting issuers and fewer than ten partners.

Gifts and hospitality

- (36) A member or student who participates on an engagement team for an assurance client and the member's or student's firm shall not accept a gift or hospitality, including a product or service discount, from the client or a related entity, unless the gift or hospitality is clearly insignificant to the member, student or firm, as the case may be.

204.5 Members Must Disclose Prohibited Interests and Relationships

A member or student who has a relationship or interest, or who has provided a professional service, that is precluded by this Rule shall advise in writing a designated partner of the firm of the interest, relationship or service.

A member or student who has been assigned to an engagement team for an assurance client shall advise, in writing, a designated partner of the firm of any interest, relationship or activity that would preclude the person from being on the engagement team.

204.6 Firms To Ensure Compliance by Partners and Professional Employees

A firm that performs an assurance engagement shall ensure that members of the firm do not have a relationship or interest, do not perform a service and remain free of any influence that would preclude the firm from performing the engagement pursuant to Rules 204.1, 204.2, 204.4 or 204.7.

204.7 Independence: Insolvency Engagements

A member or firm who engages or participates in an engagement to act in any aspect of insolvency practice, including as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager, shall be and remain independent such that the member, firm and members of the firm shall be and shall remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member, firm or member of the firm.

204.8 Disclosure of Impaired Independence

A member or firm engaged in the practice of public accounting or any related business or practice, who provides a service not subject to the requirements of Rules 204.1 to 204.7, shall disclose any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair the member's or firm's independence such that the professional judgment or objectivity of the member, firm or member of the firm would appear to be impaired, and such disclosure shall be made in the member's or firm's written report or other written communication accompanying financial statements or financial or other information and the disclosure shall indicate the nature of the activity or relationship and the nature and extent of the interest.

205 False or misleading documents and oral representations

A member, student or firm shall not

- (a) sign or associate with any letter, report, statement, representation or financial statement which the member, student or firm knows, or should know, is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor
- (b) make or associate with any oral report, statement or representation which the member, student or firm knows, or should know, is false or misleading

206 Compliance With Professional Standards

- .1 A member or firm engaged in the practice of public accounting shall perform professional services in accordance with generally accepted standards of practice of the profession.
- .2 A member who has responsibility for the preparation or approval of the general purpose financial statements of an entity shall ensure those financial statements are presented fairly in accordance with generally accepted accounting principles or such other accounting principles as may be required in the circumstances.
- .3 A member who, as a member of an entity's audit committee or board of directors, is required to participate in the review or approval of the entity's general purpose financial statements by such committee or board, shall carry out that responsibility with the care and diligence of a competent Chartered Accountant, enhanced by the skills and knowledge derived from the member's own career.

207 Unauthorized benefits

A member or student shall not, in connection with any transaction involving a client or an employer, and a firm shall not, in connection with any transaction involving a client, hold, receive, bargain for, become entitled to or acquire, directly or indirectly, any fee, remuneration or benefit for personal advantage or for the advantage of a third party without the knowledge and consent of the client or employer, as the case may be.

208 Confidentiality of information

- .1 A member, student or firm shall not disclose any confidential information concerning the affairs of any client, former client, employer or former employer except:
 - (a) when properly acting in the course of carrying out professional duties;
 - (b) when such information should properly be disclosed for purposes of Rule 211 or Rule 302;
 - (c) when such information is required to be disclosed by order of lawful authority or, in the proper exercise of their duties, by the Council, the professional conduct committee or any subcommittee thereof, the discipline committee, the appeal committee, or the practice inspection committee;
 - (d) when justified in order to defend the member, student or firm or any associates or employees of the member, student or firm, as the case may be, against any lawsuit or other legal proceeding

or against alleged professional misconduct or in any legal proceeding for recovery of unpaid professional fees and disbursements, but only to the extent necessary for such purpose; or

(e) when the client, former client, employer or former employer, as the case may be, has consented to such disclosure.

.2 A member, student or firm shall not use confidential information of any client, former client, employer or former employer, as the case may be, obtained in the course of professional work for such client or employer

- (a) for the advantage of the member, student or firm,
- (b) for the advantage of a third party, or
- (c) to the disadvantage of such client or employer

without the knowledge and consent of the client, former client, employer or former employer.

.3 A member or firm engaged to perform a particular service may contract for the services of a person not employed by the member or firm to assist in the performance of that service, provided the member or firm first obtains the written agreement of that person to carefully and faithfully preserve the confidentiality of any information acquired for the purposes of the engagement and not to make use of such information other than as shall be required in the performance of such services.

209 Borrowing from clients

.1 A member, student or firm shall not, directly or indirectly, borrow from or obtain a loan or guarantee from a client unless either

- (a) the loan or guarantee has been made under normal commercial terms and conditions, and
 - (i) the client is a bank or similar financial institution whose business includes lending money to the public; or
 - (ii) the client is a person or entity, a significant portion of whose business is the private lending of money;
- or

- (b) (i) in the case of a member or student, the client is a family member or an entity over which a family member exercises significant influence; or
- (ii) in the case of a firm, the client is a family member of a partner or shareholder of the firm or an entity over which a family member of a partner or shareholder of the firm exercises significant influence.

.2 Rule 209.1 does not apply to:

- (a) the financing of a bona fide business venture between a member, student or firm and a client that is not an assurance client

- (b) amounts received from a client as a retainer or as a deposit on account of future services to be provided by the member, student or firm; or
 - (c) a loan received from a member's or student's employer.
- .3 For purposes of Rule 209.1, a client includes a person or entity who has, within the previous two years, engaged the member or firm to provide a service and who relies on membership in the Institute as giving the member or firm particular competence to provide that service.

210 Conflict of Interest

- .1 A member or firm engaged in the practice of public accounting or in a related business or practice shall, before accepting any professional engagement, determine whether there is any restriction, influence, interest or relationship which, in respect of the proposed engagement, would cause a reasonable observer to conclude that there will be a conflict as contemplated by Rule 210.2.
- .2 Subject to the provisions of Rule 210.3, a member, student or firm shall not accept, commence or continue any engagement to provide professional services to any client in circumstances where a reasonable observer would conclude that the member, student or firm:
- (a) is in a position or has placed any person in a position where any of their interests conflicts with the interest of a client; or
 - (b) is in a position where the duty owed to one client creates a professional or legal conflict with the duty owed by the member, student or firm to another client.
- .3 Where the acceptance of a proposed engagement would result in a conflict under Rule 210.2 or where a previously unidentified conflict under Rule 210.2 arises or is discovered in the course of an existing engagement or engagements, the member or firm must decline the proposed engagement, or withdraw from all existing engagements that are affected, unless:
- (a) (i) the member or firm is able to rely upon conflict management techniques that are generally accepted and the use of such techniques will not breach the terms of an engagement with or duty to another client;
 - (ii) the member or firm informs all affected clients of the existence of the conflict and the techniques that will be used to manage it; and
 - (iii) the member or firm obtains the consent of all affected clients to accept or continue the engagement or engagements; or

- (b) the affected clients have knowledge of the conflict and their consent for the member or firm to accept or continue the engagement is implied by their conduct, in keeping with common commercial practice.

- .4 For purposes of Rule 210, a client includes any person or entity for whom the member, student or firm, or any other person engaged in the practice of public accounting or a related business or practice in association with the member, student or firm, provides or is engaged to provide a professional service.

211 Duty to report breach of rules of professional conduct

- .1 A member or firm shall promptly report to the Institute any information concerning an apparent breach of these rules of professional conduct, or any information raising doubt as to the competence, reputation or integrity of a member, student, applicant or firm, unless such disclosure would result in
 - (a) the breach of a statutory duty not to disclose, or
 - (b) the reporting of information by a member or firm exempted from this rule for the purpose and to the extent specified by Council, or
 - (c) the loss of solicitor-client privilege, or
 - (d) the reporting of a matter that has already been reported, or
 - (e) the reporting of a trivial matter.
- .2 A member or firm required to report under Rule 211.1 and who is engaged, or is in consultation with a view to being engaged, with respect to a civil or criminal investigation need not report to the Institute any information obtained in the course of such engagement or consultation concerning an apparent breach of these rules of professional conduct or any information raising doubt as to the competence, reputation or integrity of a member, student, applicant or firm until such time as
 - (a) the client has consented to the release of the information, or
 - (b) the member or firm becomes aware that the information is known to third parties other than legal advisors, or
 - (c) it becomes apparent to the member or firm that the information will not become known to third parties other than legal advisors.

212.1 Handling of trust funds and other property

A member or student who, or a firm that, receives, handles or holds money or other property as a trustee, receiver or receiver/manager, guardian, administrator/manager or liquidator shall do so in accordance with the terms of the engagement, including the terms of any applicable trust, and the law relating thereto and shall maintain such records as are necessary to account properly for the money or other property; unless otherwise provided for by the terms of the trust, money held in trust shall be kept in a separate trust bank account or accounts.

.2 Handling property of others

A member, student or firm in the course of providing professional services shall handle with due care any entrusted property.

213 Unlawful activity

A member, student or firm shall not knowingly associate with any unlawful activity.

214 Fee quotations

A member or firm shall not quote a fee for any professional engagement unless adequate information has been obtained about the engagement.

215 Contingent fees

.1 A member or firm engaged in the practice of public accounting or in a related business or practice shall not offer or engage to perform a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service, where the service is

(a) one in respect of which professional standards or rules of conduct require that the member be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity; or

(b) a compilation engagement.

.2 Rule 215.1 does not apply to a professional service for a fee fixed by a court or other public authority or to a professional service in respect of any aspect of insolvency practice, including acting as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager.

.3 Other than in respect of an engagement described in Rule 215.1, a member or firm engaged in the practice of public accounting or in a

related business or practice may offer or engage to perform a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service, provided:

- (a) the fee arrangement does not constitute an influence, interest or relationship which impairs or, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member or a partner of the member in respect of an engagement described in Rule 215.1(a); or
- (b) the fee arrangement is not one which influences, or in the view of a reasonable observer would influence, the result of a compilation engagement performed by the member or a partner of the member for the same client; and
- (c) the client has agreed in writing to the basis for determining the fee before the completion of the engagement.

216 Payment or receipt of commissions

Other than in relation to the sale and purchase by a member or firm of an accounting practice, a member or firm engaged in the practice of public accounting or a student while employed by a member or firm engaged in the practice of public accounting shall not directly or indirectly pay to any person who is not an employee of the member or firm or who is not a public accountant a commission or other compensation to obtain a client, nor shall the member, student or firm accept directly or indirectly from any person who is not a public accountant a commission or other compensation for a referral to a client of products or services of others.

217.1 Advertising and promotion

A member or firm may advertise or seek publicity for the member's or firm's services, achievements or products and may seek to obtain new engagements and clients by various means, but shall not do so, directly or indirectly, in any manner

- (a) which the member or firm knows, or should know, is false or misleading or which includes a statement the contents of which the member or firm cannot substantiate;
- (b) which makes unfavourable reflections on the competence or integrity of the profession or any member or firm; or
- (c) which otherwise brings disrepute on the profession.

.2 Solicitation

Notwithstanding Rule 217.1, a member or firm shall not, either directly or through a party acting on behalf of and with the knowledge of the member, solicit, in a manner that is persistent, coercive or harassing, any professional engagement.

.3 Endorsements

A member or firm may advertise or endorse any product or service of another person or entity that the member or firm uses or otherwise has an association with, provided the member or firm has sufficient knowledge or expertise to make an informed and considered assessment of the product or service. However, in doing so

- (a) the member or firm must act with integrity and due care;
- (b) the member or firm must be satisfied that the endorsement
 - (i) is not false or misleading or does not include a statement the contents of which the member or firm cannot substantiate,
 - (ii) does not make unfavourable reflections on the competence or integrity of the profession or any member or firm, and
 - (iii) does not otherwise bring disrepute on the profession; and
- (c) when associating the CA designation with an endorsement, the member or firm must conduct sufficient appropriate procedures to support the assertions made about the product or service.

218 Retention of documentation and working papers

A member or firm shall retain for a reasonable period of time such working papers, records or other documentation which reasonably evidence the nature and extent of the work done in respect of any professional engagement.

300 – RELATIONS WITH FELLOW MEMBERS AND WITH NON-MEMBERS ENGAGED IN PUBLIC ACCOUNTING

301.1 and .2 – repealed December 12, 2002

302 Communication with predecessor

- .1 A member or firm shall not accept an engagement with respect to the practice of public accounting or the public practice of a function not inconsistent therewith, where the member or firm is replacing another member, firm or other public accountant recognized by statutory authority in Ontario, without first communicating with such person or firm and enquiring whether there are any circumstances that should be taken into account which might influence the decision whether or not to accept the engagement.
- .2 An incumbent member or firm shall respond promptly to the communication referred to in Rule 302.1.
- .3 A member or firm responding to a communication pursuant to Rule 302.2 shall inform the possible successor if suspected fraud or other illegal activity by the client was a factor in the member's or firm's resignation, or if, in the member's or firm's view, fraud or other illegal activity by the client may have been a factor in the client's decision to appoint a successor.

303 Co-operation with successor accountant

- .1 A member or firm shall upon written request of the client and on a timely basis, supply reasonable and necessary information to the member's or firm's successor. Such co-operation is required with any successor accountant, including a non-member.
- .2 A predecessor member or firm on an engagement shall co-operate with the successor on the engagement. The predecessor shall transfer promptly to the client or, on the client's instructions, to the successor, all property of the client which is in the predecessor's possession. Such property shall be transferred in the medium in which it is maintained by the predecessor, or such other medium that is mutually agreeable, that will facilitate a timely and efficient transfer which best serves the client's interests. Ordinarily, when electronic copies of the property of the client are readily available, the client's interests will be best served when such information is provided as electronic data, rather than in printed form, provided that supplying the information in such form will not violate licensing, copyright or similar legal agreements or proprietary rights.

304 Joint engagements

A member or firm accepting an engagement jointly with another member or firm shall accept joint and several responsibility for any portion of the work to be performed by either; no member or firm shall proceed in any matter within the terms of such joint engagement without due notice to the

other member or firm.

305 Communication of special engagements to incumbent

- .1 A member or firm engaged in the practice of public accounting shall, before commencing any engagement for a client for which another member or firm is the duly appointed auditor or accountant, first notify such auditor or accountant of the engagement, unless the client makes an unsolicited request, evidenced in writing, that such notification not be given.
- .2 Rule 305.1 applies only where the services to be provided under the terms of the engagement are included in the practice of public accounting.

306 Responsibilities on accepting engagements

- .1 A member or firm accepting an engagement, whether by referral or otherwise, from a client of a member or firm having a continuing professional relationship with that client shall not take any action which would tend to impair the position of the other member or firm in the ongoing work with the client.

.2 Responsibilities on referred engagements

A member or firm receiving an engagement for services by referral from a member or firm shall not provide or offer to provide any additional services to the referred client without the consent of the referring member or firm; the interest of the client being of overriding concern, the referring member or firm shall not unreasonably withhold such consent.

400 – ORGANIZATION AND CONDUCT OF A PROFESSIONAL PRACTICE

401 Practice names

A member or firm shall engage in the practice of public accounting, or in the public practice of any function not inconsistent therewith, only under a name or style which

- (a) is not misleading,
- (b) is not self-laudatory,
- (c) does not contravene professional good taste, and
- (d) has been approved in a manner specified by the Council

402 Use of descriptive styles

- .1** The practice of public accounting shall be carried on under the descriptive style of either "chartered accountant(s)" or "public accountant(s)", unless it forms part of the firm name. Regardless of the functions actually performed, the use of either "chartered accountant(s)" or "public accountant(s)" as part of the firm name or as a descriptive style, in offering services to the public, shall be regarded as carrying on the practice of public accounting for the purposes of these rules of professional conduct.
- .2** Notwithstanding Rule 402.1, each office in Ontario of any firm engaged in the practice of public accounting and composed of one or more members sharing proprietary interest with other public accountants who are not professional colleagues* shall not practise under the style of "chartered accountants".

**Members are referred to the bylaws definition of "professional colleague" as a member or a member of a provincial institute.*

403 Association with firms

A member shall not associate in any way with any firm practising as chartered accountants in Ontario unless:

- (a) all partners or controlling shareholders resident in Ontario are members, professional corporations or incorporated professionals,
- (b) at least one partner or controlling shareholder is a member, and
- (c) all the partners or controlling shareholders are professional colleagues* or professional corporations or incorporated professionals provided each such corporation or incorporated professional is recognized and approved for the practice of

public accounting by the provincial institute in the province concerned.

**Members are referred to the bylaws definition of "professional colleague" as a member or a member of a provincial institute.*

404 Operation of members' offices

- .1 Each office in Ontario of any member or firm engaged in the practice of public accounting shall be under the personal charge and management of a member who shall normally be accessible to meet the needs of clients during such times as the office is open to the public.
- .2 A member or firm shall not operate a part-time office except in accordance with such terms and conditions established by Council.

405 Office by representation

A member or firm engaged in the practice of public accounting shall not hold out or imply that the member or firm has an office in any place where the member or firm is in fact only represented by another public accountant or a firm of public accountants and, conversely, a member or firm engaged in the practice of public accounting who only represents a public accountant or a firm of public accountants, shall not hold out or imply that the member or firm maintains an office for such public accountant or such firm.

406 Member responsible for a non-member in practice of public accounting

A firm or member engaged in the practice of public accounting who is associated in such practice with a non-member shall be responsible to the Institute for any failure of such non-member, in respect of such practice, to abide by the rules of professional conduct of the Institute and in the application of this rule, the rules of professional conduct are deemed to apply as if such non-member were a member.

407 Related business or practice, and member responsible for non-member in such business or practice

- .1 The rules of professional conduct, except Rule 402.1, shall apply to a member or firm carrying on a related business or practice as if it were the practice of public accounting.
- .2 A member or firm engaged in a practice of public accounting to which another business or practice is related, or engaged in such related business or practice, shall be responsible to the Institute for any failure of a non-member who is associated with such related business or practice and who is under the member's or firm's management or supervision or

with whom the member or firm shares proprietary or other interest in such related business or practice to comply with the rules of professional

conduct. In the application of this rule, the rules of professional conduct are deemed to apply as if such related business or practice were the practice of public accounting and such non-member were a member.

- .3 A member may associate with a related business or practice as a proprietor, as a partner, or as a director, officer or shareholder of a corporation and may associate with a non-member for this purpose.
- .4 A related business or practice shall not be designated "chartered accountant(s)" or "public accountant(s)".

408 Association of member with non-members in public practice

A member or firm shall not associate in any way with a non-member in a practice of public accounting, or in a related business or practice, unless:

- (1) such association maintains the good reputation of the profession and its ability to serve the public interest; and
- (2) such business or practice establishes and maintains policies, procedures and arrangements suitable to ensuring:
 - (a) that every such non-member is knowledgeable of and complies with
 - (i) the Institute's governing legislation, bylaws, regulations and rules of professional conduct; and
 - (ii) the ethical and other regulations applicable to members of a recognized professional organization or regulated body of which the non-member is a member; and
 - (b) that no style of presentation or communication is used which implies that the non-member is a member.

409 Practice of public accounting in corporate form

A member or firm shall not associate in any way with any corporation engaged in Canada or Bermuda in the practice of public accounting, except to the extent permitted in clauses (1), (2), (3) and (4) of this rule:

- (1) A member or firm may engage to provide to the corporation any of the services included in the practice of public accounting.
- (2) A member, other than a member engaged in the practice of public accounting, may associate with a corporation which provides taxation services involving advice, counsel or interpretation provided such services are only a small part of the corporation's activities.

- (3) A member or firm may associate with a professional corporation engaged in the practice of public accounting in Ontario provided such corporation
- (a) is incorporated or continued under the Ontario *Business Corporations Act*, and
 - (b) holds a valid registration certificate under the *Chartered Accountants Act, 2010* and the bylaws of the Institute; and
 - (c) holds a valid certificate of authorization under the *Public Accounting Act, 2004* and the bylaws of the Institute.
- (4) A member or firm may associate with a professional corporation or incorporated professional engaged in the practice of public accounting in a province other than Ontario if the corporation or incorporated professional is recognized and approved for such practice by the provincial institute in the province concerned and the corporation or incorporated professional does not engage in the practice of public accounting in Ontario.

Without limiting the generality of the foregoing, a corporation shall be deemed to be engaged in the practice of public accounting even though the corporation provides a service included in the definition of "practice of public accounting" only to another member or firm engaged in the practice of public accounting or to a public accountant.

500 – RULES OF PROFESSIONAL CONDUCT APPLICABLE ONLY TO FIRMS

501 Firm's maintenance of policies and procedures for compliance with professional standards

A firm shall establish, maintain and uphold appropriate policies and procedures designed to ensure that its services are performed in accordance with generally accepted standards of practice of

- (a) the profession, including the Recommendations and Requirements, as appropriate, set out in the *CICA Handbook*; and
- (b) the particular business or practice, provided that such standards are not lower than or inconsistent with the generally accepted standards of practice of the profession in which case the generally accepted standards of the profession must be followed.

502 Firm's maintenance of policies and procedures: competence and conduct of firm members

A firm shall establish, maintain and uphold appropriate policies and procedures designed to ensure that, in the conduct of the practice, the members and students of the Institute who are associated with the firm and any other employees of the firm or other persons with whom the firm contracts to carry out its professional services comply with the rules of professional conduct, and in particular:

- (a) conduct themselves in a manner which will maintain the good reputation of the profession and its ability to serve the public interest;
- (b) perform their professional services with integrity and due care;
- (c) comply with the independence requirements of the Institute;
- (d) comply with the conflict of interest requirements of the Institute;
- (e) sustain their professional competence and keep informed of and comply with developments in professional standards in all functions in which they practise or are relied on because of their calling;
- (f) ensure only authorized individuals have access to and can authorize the release of financial and confidential information relating to clients;
- (g) do not sign or associate themselves with any letter, report, statement, representation or financial statement which they know or should know is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor make or associate themselves with any oral report, statement or representation which they know or should know is false or misleading;
- (h) ensure that partners or others who are not professional colleagues, such as head office personnel,
 - (i) cannot supersede decisions of members relating to the performance of client engagements within the definition of the practice of public accounting, and

- (ii) are familiar with and comply with the Act, regulations, bylaws and rules of professional conduct of the Institute; and
- (i) ensure that members of the firm who are members of other professional associations comply with those associations' bylaws and code of ethics.

503 Association with firms

A firm engaged in the practice of public accounting shall not associate professionally with any other firm practising as chartered accountants in Ontario unless:

- (a) all partners or controlling shareholders of the other firm who reside in Ontario are members,
- (b) at least one partner or controlling shareholder of the other firm is a member, and
- (c) all the partners or controlling shareholders of the other firm are professional colleagues* or professional corporations or incorporated professionals provided each such corporation or incorporated professional is recognized and approved for the practice of public accounting by the provincial institute in the province concerned.

**Members are referred to the bylaws definition of "professional colleague" as a member or a member of a provincial institute.*

APPENDIX A

FORMER RULE OF PROFESSIONAL CONDUCT 204 (OBJECTIVITY),
in effect until December 31, 2003

204.1 Objectivity – assurance and specified auditing procedures engagements

A member who engages or participates in an engagement

- (a) to issue a written communication under the terms of any assurance engagement, or
- (b) to issue a report on the results of applying specified auditing procedures

shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity.

.2 Objectivity – insolvency engagements

A member who engages or participates in an engagement to act in any aspect of insolvency practice, including as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager, shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity.

.3 Objectivity – Disclosure of Impairment of Objectivity

Where a member engaged in the practice of public accounting, or in a related business or practice, provides a service not subject to the requirements of Rules 204.1 or 204.2, such member shall disclose any influence, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair the member's professional judgment or objectivity, and such disclosure shall be made in the member's written report, notice to reader or other written communication accompanying financial statements or financial or other information and the disclosure shall indicate the nature of the influence or relationship and the nature and extent of the interest.

ICAO COUNCIL INTERPRETATIONS

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF ONTARIO

COUNCIL INTERPRETATIONS

Adopted by the Council June 11, 1973 and
amended from time to time, including the most recent
amendments effective September 28, 2012

ICAO COUNCIL INTERPRETATIONS

**THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF ONTARIO**

COUNCIL INTERPRETATIONS

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

COUNCIL INTERPRETATIONS*

(under powers contained in Bylaw 2.1)

Amended by the Council on September 28, 2012

INTRODUCTION:

Council periodically issues interpretations for the information and guidance of members, students and firms, on matters related to the rules of professional conduct. The interpretations should be read in conjunction with the rules, including the Foreword and its Application section. Council has not issued interpretations on all of the rules.

New interpretations to the rules, and amendments to existing interpretations, are developed by Council in consultation with the Ethics Standards Harmonization Committee. That committee has been established to co-ordinate among the provincial institutes/ordre matters relating to rules and interpretations.

Members, students and firms may seek additional direction on matters relating to professional conduct from the ethics counselling service. This is a service of the Institute which, in consultation with the professional conduct committee, provides information and guidance concerning problems of an ethical nature or concerning the ethical propriety of a proposed course of action in connection with a member's, student's or firm's professional work.

* *Adopted by the Council June 11, 1973 and amended from time to time, including the most recent amendments effective September 28, 2012.*

CI 102 – Matters to be reported to the Institute

Rule 102

- 1 Rules 102.1(a), 102.1(c), 102.1(d), 102.2 and 102.3 identify certain matters which must be reported to the Institute by Members, Students, Applicants, membership candidates and firms.
- 2 Rules 102.1(b), 102.1(e) and 102.4 identify matters where a decision as to whether the matter should be reported to the Institute requires the exercise of professional judgement.
 - (a) Compliance with Rule 102.1(b) will require the exercise of professional judgment to determine whether a serious criminal offence diminishes the good reputation of the profession and its ability to serve the public interest.
 - (b) With respect to Rule 102.1(e), in some cases a violation of tax legislation may be very technical in nature or may be the result of an unintentional oversight. In addition, there may be occasions when an aggressive tax filing position does not withstand a challenge by taxation authorities and is found by the courts to be in contravention of tax legislation. Such situations may not explicitly involve dishonesty but will require the exercise of professional judgment to decide whether they implicitly involve dishonesty and must be reported.
 - (c) Compliance with Rule 102.4 will also require the exercise of professional judgment to determine whether a breach of the requirements of another regulatory body is a matter that involves acting in a professional capacity, relates to professional skills, or involves reliance on membership in or association with the Institute or a provincial institute.
- 3 Members, Students, Applicants, membership candidates and firms faced with a decision as to whether a matter is reportable are expected to exercise professional judgment and to be prepared to demonstrate how professional judgment was exercised, should it later be called into question. Therefore, it would be prudent to obtain legal advice, document the rationale behind a decision that a matter need not be reported and, if doubt remains, report the matter to the Institute.
- 4 It is particularly important that the conduct of Members, Students, Applicants, membership candidates and firms in a matter that involves acting in a professional capacity, relates to professional skills, involves reliance on membership in or association with any provincial institute or

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diminishes the good reputation of the profession and its ability to serve the public is subject to scrutiny. Accordingly, Members, Students, Applicants membership candidates and firms are required to report offences of fraud, theft, forgery, money-laundering, extortion, counterfeiting, criminal organization activities, charging criminal interest rates, financing terrorism and similar offences related to financial matters, including offences involving a violation of any of the provisions of securities legislation.

- 5** There may also be occasions when a criminal offence is of such a nature that the conduct of a Member, Student, Applicant, membership candidate or firm has diminished the good reputation of the profession and its ability to serve the public interest, even though the offence may appear to be unrelated to the profession. Many such offences may still be serious and, accordingly, the Member, Student Applicant, membership candidate or firm should evaluate the breach against the requirements of the rules, and in particular Rule 201.1. Any such matters which do not meet those requirements must also be reported to the Institute.
- 6** In addition, when a Member, Student, Applicant, membership candidate or firm repeats a criminal offence that might not otherwise be reportable such repeat offence must also be reported to the Institute.
- 7** Members and firms may hold membership in or registration with the Institute and one or more provincial institutes. Students are not ordinarily registered with the Institute and another provincial institute. In order to properly protect the public across jurisdictions, where a member or firm has been found guilty by or entered into a settlement agreement with a provincial institute, the member or firm must report that finding or settlement agreement to the Institute and any other provincial institute in which the member holds membership or with which the firm is registered. In addition, some provincial institutes permit the resignation of members in order to resolve a disciplinary proceeding; in these cases, the member must also report such resignations to the Institute and any other provincial institute in which membership is held.
- 8** Conduct which results in a breach of the requirements of another professional regulatory body is likely to diminish the good reputation of the profession or otherwise breach the Rules of Professional Conduct. Such breaches must also be evaluated by the Institute against the requirements of the Rules and therefore, all such matters must be reported. Reporting of these matters is required whether they were addressed through a settlement agreement with or by a finding of guilt by the professional regulatory body.

- 9 Conduct which results in a breach of the requirements of any other regulatory body may also breach the Rules of Professional Conduct. In such situations, the Member, Student, Applicant, membership candidate or firm should exercise professional judgment to determine whether such a breach is a matter that involves acting in a professional capacity, relates to professional skills, or involves reliance on membership in or association with any provincial Institute. The breach must be evaluated against the requirements of the Rules, and in particular Rule 201.1, and any such matters which do not meet those requirements must be reported to the Institute. Reporting of these matters is required whether they were addressed through a settlement agreement with or by a finding of guilt by the other regulatory body.
- 10 A “regulatory body” is a quasi-judicial body that has power to compel a person to appear and answer to charges relating to compliance with its requirements. In this context, such a regulatory body’s requirements include legislation that it is empowered to enforce, whether against its own members or the public generally, codes of ethics, bylaws, regulations, professional or practice requirements and similar standards. Examples of regulatory bodies include, but are not limited to, competition, election, gaming, human rights, environmental protection and health and occupational safety bureaus, commissions and agencies.
- 11 A “professional regulatory body” is a quasi-judicial body that sets and maintains standards of qualification, attests to the competence of the individual practitioner, develops skills and standards of the profession, sets a code of ethical standards and enforces its professional and ethical standards. Such a body has power to compel a person to appear and answer to disciplinary actions relating to compliance with its standards. Examples of professional regulatory bodies include, but are not limited to, other designated accounting bodies under the *Public Accounting Act, 2004*, and accounting, legal, actuarial, investment, real estate, engineering and financial planning professions.
- 12 In applying Rules 102.1 through 102.4, the words “guilt” and “guilty” include findings by a regulatory body of a contravention, breach, violation, infringement and other similar term in relation to failures to comply with its requirements. Additionally, the imposition of a requirement or restriction on a member or firm by a regulatory body is equivalent to “guilt”. However, administrative orders for penalties such as late filing penalties from tax assessments or reassessments or interim cease trade orders of a securities regulator do not constitute findings of guilt.

- 13** Members, Students, Applicants, membership candidates and firms are reminded that confidentiality agreements with respect to matters described in Rule 102.1 through 102.4 do not provide an exemption from the reporting requirements of these rules.

CI 104 – Requirement to co-operate

Rule 104

104.1 A member, student or firm shall co-operate with the regulatory process of the Institute.

.2 A member, student or firm shall

- (a) promptly reply in writing to any communication from the Institute in which a written reply is specifically requested;*
- (b) promptly produce documents when required to do so by the Institute;*
- (c) attend in person in the manner requested when required to do so by the Institute in relation to the matters referred to in Rule 104.1.*

- 1** The regulatory processes of the Institute include practice inspections, investigations into professional conduct, disciplinary or other hearings, admission, registration, readmission or re-registration, inquiries, and appeals of any decisions resulting from the aforementioned processes.
- 2** Lack of co-operation includes attempts to delay, mislead or misdirect the Institute by concealing relevant information, providing false, incomplete or misleading statements or information, failing to respond to communications or otherwise obstructing the regulatory processes of the Institute. Lack of co-operation does not include good-faith assertions of legal privilege.
- 3** The requirement for prompt written replies and production of documents contemplates the establishment of a reasonable timeframe to respond to the request. Request for reasonable extensions will not normally be refused, however, repeated requests without adequate grounds will be refused.
- 4** Requirements for attendance in person may be modified by agreement between the Institute and the member, student or firm to provide reasonable accommodations. However, repeated requests for alternative accommodations without adequate grounds will be refused.

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- 5 Subject to the agreement of the Institute, the requirement to attend in person may include attendance by teleconference, videoconference or other means.
- 6 The requirement to co-operate with the Institute includes a requirement to cooperate with officers, staff, volunteers or agents acting on behalf of the Institute in matters described in Rules 104.1 and 104.2.

CI 105 – Hindrance, inappropriate influence and intimidation

Rule 105

105.1 A member, student or firm shall not, directly or indirectly hinder any regulatory process of the Institute or otherwise attempt to exert inappropriate influence or pressure on the outcome of a regulatory matter of the Institute.

.2 A member, student or firm shall not threaten or intimidate a complainant, witness, or any other person related to a regulatory matter of the Institute nor shall a member, student or firm threaten or intimidate officers, staff, volunteers or agents of the Institute acting on behalf of the Institute.

- 1 Rule 105.1 which prohibits hindering or otherwise exerting inappropriate influence on the outcome of a specific regulatory matter, explicitly includes a reference to “inappropriate influence or pressure”. The rule is not intended to prevent members, students or firms from taking appropriate steps to advocate for or defend themselves or another member, student or firm before the appropriate regulatory decision-making body within the Institute or the courts. Further, another member, student or firm may act as an expert or other witness, provide letters of reference, or appear before the appropriate regulatory decision-making body within the Institute as the representative of the member, student or firm.
- 2 Without limiting the generality of the rule, in particular, when a complaint has been made against a member, student or firm, the requirements of Rule 105.2 apply to any communication that the member, student or firm has with the complainant. Any such communication must meet the requirements of Rule 105.2 and should ordinarily be limited to only those matters that must be addressed to continue to serve the interests of the complainant.

CI 201.1 - MAINTENANCE OF REPUTATION OF PROFESSION

Rule 201.1

A member, student or firm shall act at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest.

Compliance with regulatory legislation

- 1 Provincial as well as federal legislation often requires licensing and may govern activities involving public accounting, dealing in securities, mortgage brokering, real estate brokering, practising law, acting as an employment agency, and handling trust monies.
- 2 A member or firm should be cognizant of and comply with the provisions of any federal and provincial legislation regulating activities in the various service areas of the member's or firm's public practice.
- 3 A member or firm not engaged in public practice should be cognizant of and comply with the provisions of any legislative requirements pertaining to the member's or firm's activities.
- 4 In Ontario, various pieces of legislation have application to a member's activities. The most notable example is the *Public Accounting Act, 2004*.

Public Accounting Act, 2004

All members and firms who are engaged in the practice of public accounting in Ontario, whether full or part-time, should be familiar with the provisions of the *Public Accounting Act, 2004* and the public accounting licensing requirements set out in the Institute's Bylaws and Regulations.

Criticism of a professional colleague, firm or other public accountant

- 5 In the course of professional work, a member or firm may on occasion criticize a professional colleague, firm or other public accountant; such criticism may be direct, or may be implied by material adjustments to a client's accounts considered necessary to correct work performed by the professional colleague, firm or other public accountant. It may be, however, that there are facts or explanations known to the professional colleague, firm or other public accountant concerned which could have a bearing on the matter.

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- 6 Unless limited or restricted in writing by the terms of the engagement, it is recommended that the member or firm first communicate any proposed criticism to the professional colleague, firm or other public accountant involved so that any eventual criticism takes into account all the available information. This is a step dictated by considerations both of professional courtesy and simple prudence.
- 7 Paragraphs 5 and 6 apply to criticisms of a general nature as well as to criticisms of specific professional work of another professional colleague, firm or other public accountant.
- 8 Paragraph 6 does not apply to a member or firm bringing to the attention of the professional conduct committee any apparent breach of the rules or any instance involving doubt as to the competence, reputation or integrity of a member, student, applicant or firm, as required by Rule 211.
- 9 Reserved for future use

Resignation of auditors

- 10 The auditor of a company is appointed to represent the shareholders and has a duty to them. The auditor should never lightly resign an appointment before reporting and should not resign at all before reporting if there is reason to suspect that the auditor's resignation is required by reason of any impropriety or concealment, upon which it is the auditor's duty to report. Subject to that general statement, however, there may be exceptional circumstances in a particular case which would justify the auditor's resignation. This will be a matter of individual judgment in each case.
- 11 On occasion, the question arises of the duty of a member or firm appointed auditor of an entity, who is asked to resign before reporting. While the following paragraphs deal with corporations, the nature of the guidance should be helpful in a similar situation with a non-corporate entity.
- 12 Statutory provisions with regard to auditors form a very important part of legislation. The whole background of corporation legislation makes it clear that the auditor fulfils an essential statutory and independent function and assumes statutory duties when accepting an appointment. As a general rule, the proper course for an appointed auditor to follow is the completion of the auditor's statutory duties: having been appointed by the shareholders the auditor should report, as required in the legislation. The auditor should cease to act on behalf of a client only after a successor has been properly appointed and the auditor has been relieved or disqualified.
- 13 The question remains whether there are exceptions when a duly appointed auditor may resign at the request of a board of directors without fulfilling the auditor's statutory duties. The answer depends on the

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circumstances. Certainly, the auditor of a company should not lightly resign under such circumstances, and should not resign at all, before reporting to the shareholders, if the auditor has any reason to believe that the resignation is required by reason of any impropriety or concealment which it is his or her duty to report upon.

- 14** However, exceptional circumstances may exist in a particular case which would justify an appointed auditor in acceding to a request for resignation. One example, appropriate only if a minority interest would not be prejudiced, would be where there is reason to believe that if a special meeting of the shareholders were to be called to relieve the auditor of the appointment, the necessary percentage of shareholders specified in the governing statute would terminate the auditor's appointment. In such a case it may not be necessary for the auditor to insist on a special meeting being called.
- 15** An auditor should not voluntarily cease to act on behalf of a client after commencement of an audit engagement except for good and sufficient reason. Reasons may include:
- (a) loss of trust in the client;
 - (b) the fact that the auditor is placed in a situation of conflict of interest or in circumstances where the auditor's objectivity could reasonably be questioned; or
 - (c) inducement by the client to perform illegal, unjust or fraudulent acts.
- 16** When an auditor is asked to resign or is contemplating resignation, it would be prudent for the auditor to consider obtaining legal advice.

CI 201.4 – ADVOCACY SERVICES

Rule 201.4

Before accepting an engagement to act as an advocate, a member or firm shall ensure that:

- (a) the service is not an assurance service or specified auditing procedures engagement;*
- (b) the advocacy role is apparent in the circumstances;*
- (c) the position of the client is supportable; and*
- (d) the position of the client can be argued or supported by the member or firm without the member or firm failing to comply with the independence standards required by Rule 204 for other services which the member or firm has engaged to provide.*

- 1** When providing an advocacy service a member or firm should bear in mind other rules of professional conduct, such as Rules 203 and 205. Rule 203 requires a member to sustain professional competence in all functions in which the member practises. Rule 205 requires a member or firm not to associate with any letter, report, statement or representation which the member or firm knows, or should know, is false or misleading.
- 2** A member or firm should ensure that the advocacy service does not constitute the practice of law.

CI 202: INTEGRITY AND OBJECTIVITY

Rule 202.1 Integrity and due care

A member, student or firm shall perform professional services with integrity and due care.

Rule 202.2 Objectivity

A member or student shall perform his or her professional services with an objective state of mind.

- 1 A person who acts with honesty and truthfulness whose actions, values and principles are consistent is described as having integrity.
- 2 Objectivity is a state of mind, which has regard to all considerations that are relevant but disregards those that are not. An objective person does not allow bias, conflict of interest or the influence of others to compromise judgment. The judgment of an objective person is intellectually honest. Objectivity should not be confused with neutrality or impartiality and, accordingly, the requirement to perform professional services with an objective state of mind does not preclude a member or student from acting as an advocate on behalf of others for whom the member or student performs professional services or a business owned by the member or student.
- 3 Objectivity and integrity are two of the five fundamental principles of ethics, as stated in the Foreword to the Rules of Professional Conduct. These two principles are closely related and they are essential ethical elements in establishing the credibility of a chartered accountant. Objectivity is essential for any member or student to exercise professional judgment and act with integrity whether in public practice or elsewhere.

Professional services

- 4 The term “professional services” applies to all members and students whether or not they are engaged in the practice of public accounting. It includes those of the member’s or student’s activities where the public, colleagues or associates are reasonably entitled to rely on membership in, or registration as a student of, the Institute as giving the member or student particular competence. However, as discussed in paragraphs 7 through 10 of this Council interpretation, the requirement to conduct professional services with an objective state of mind does not preclude a member or student from acting as an advocate on behalf of others for whom the member or student performs professional services or a business owned by the member or student.

The public interest

- 5 The public expects that a chartered accountant will bring the qualities of objectivity and integrity to all professional services. It therefore becomes essential that a member or student will not subordinate professional judgment to the will of others. When a possible ethical conflict arises because a more senior person in an organization overrides the professional judgment of a junior member or student, the more junior member or student should refer to the ethical conflict resolution guidance in the Foreword to the Rules of Professional Conduct.
- 6 A member or student may be exposed from time to time to situations that place pressures upon objectivity and integrity, and it would be impractical to define all such situations. However, such pressures are subject to powerful countervailing forces and restraints. These forces include liability in law, responsibility to the profession for professional actions and, most importantly, the ingrained resistance of a disciplined professional person to any infringement upon integrity. A chartered accountant recognizes that credibility and value as a professional depend largely on integrity and objectivity.

Members and students outside of public accounting

- 7 Employment with an organization outside the practice of public accounting requires a member or student to be accountable to the employing organization, subject to the law and the Rules of Professional Conduct. Responsibility to satisfy the needs of an employer must be balanced with responsibility to the profession. This requires the member or student to act objectively and with integrity, to avoid conflicts of interest and to exercise professional judgment in keeping with the guidance outlined in Council Interpretation 5.
- 8 When a member or student is employed outside of public practice, there is a responsibility to further the legitimate aims of the employing organization. In promoting the organization's position, the member or student should not make or be associated with any false or misleading statements or statements which are not adequately supported.
- 9 Members and students are reminded that they may also be performing professional services when serving in the capacity of a volunteer and, accordingly, are subject to the requirement for objectivity when acting in that capacity.

Objectivity and advocacy

- 10 The requirement for an objective state of mind does not preclude a member or student from acting in an advocacy role for a client, unless it is otherwise prohibited by Rule 201.4, or from working to advance the best interests of an employer. A member's or student's effectiveness as an advocate in these cases is based on professional credibility, which is sustained by objectivity and integrity in addition to competence.

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However, a member or student must consider the ability to effectively advocate the client's or employer's position, while still maintaining objectivity and integrity. In any advocacy service, there is a possibility that circumstances may arise which stretch the bounds of performance standards, go beyond sound and reasonable professional or commercial practice or compromise credibility. Such circumstances may pose an unacceptable risk of impairing the reputation of the member or student and the firm, client and/or employer. In those circumstances, the member, student or firm should consider whether it is appropriate to perform the service.

- 11 A member or student who acts as an advocate for a client should refer to Rule 201.4. In such situations, the member or student should ensure that the advocacy role is apparent, and that statements made are not false or misleading and have adequate support.

Practice of public accounting – additional requirements

- 12 In addition to the general requirement to maintain an objective state of mind applicable to all professional services, a member or student in the practice of public accounting or a related business or practice must ensure compliance with the requirements of the specific Rules of Professional Conduct in relation to:
- (a) Independence, for certain types of engagement, (Rule 204 – see also paragraph 12 below); and
 - (b) Conflicts of interest (Rule 210).

Continuing assessment of objectivity and integrity

- 13 The requirement to be objective is not the same as the requirement to be independent pursuant to Rule 204. When a member, student or firm performs an assurance engagement or an engagement to perform specified assurance procedures the public must be confident that those performing the engagement are free from influences which will impair professional judgment or objectivity. Accordingly, in addition to being objective, a member, student or firm in public practice who provides such a service is required to be independent of the assurance client. Objectivity is a state of mind. Independence is not only a state of mind; it also includes the appearance of independence, in the view of a reasonable observer. It is the reasonable observer test that distinguishes "independence" from "objectivity" and that gives the public the necessary confidence that the member, student or firm can express a conclusion without bias, conflict of interest or the undue influence of others. Rule 204 and the related Council Interpretations provide specific guidance on the independence requirements in these circumstances.
- 14 A member or student must remain conscious of the need to remain objective and act with integrity in the conduct of all professional services, and must continually assess and manage the risks to objectivity and

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integrity. In the absence of specific rules, standards or guidance, a member or student should consider whether a member, without the relationships or influence that have put objectivity or integrity at risk would have come to the same decision with access to the same information. The member or student may wish to apply the ethical conflict resolution guidance in the Foreword to the Rules of Professional Conduct in circumstances where difficult decisions may be required. When an issue cannot be resolved in the member's or student's own mind, an experienced member should be consulted.

- 15** A firm is accountable under Rule 502 for a lack of objectivity or integrity of any members, students and other persons who carry out professional services on behalf of the firm.

CI 204 - INDEPENDENCE

Rule 204.1 Assurance and Specified Auditing Procedures Engagements

A member or firm who engages or participates in an engagement:

- (a) to issue a written communication under the terms of an assurance engagement; or*
- (b) to issue a report on the results of applying specified auditing procedures;*

shall be and remain independent such that the member, firm and members of the firm shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or a member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member, firm or a member of the firm.

Rule 204.2 Identification of Threats and Safeguards

A member or firm who is required to be independent pursuant to Rule 204.1 shall, in respect of the particular engagement, identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to reduce the threats to an acceptable level. Where safeguards are not available to reduce the threat or threats to an acceptable level, the member or firm shall eliminate the activity, interest or relationship creating the threat or threats, or refuse to accept or continue the engagement.

Rule 204.3 Documentation

A member or firm who, in accordance with Rule 204.2, has identified a threat that is not clearly insignificant, shall document a decision to accept or continue the particular engagement. The documentation shall include the following information:

- (a) a description of the nature of the engagement;*
- (b) the threat identified;*
- (c) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and*
- (d) an explanation of how, in the member's or firm's professional judgment, the safeguards eliminate the threat or reduce it to an acceptable level.*

204.4 Specific Prohibitions, Assurance and Specified Auditing Procedures Engagements

In addition to complying with Rules 204.1, 204.2, 204.3, 204.5 and 204.6 a member or firm shall comply with the following specific prohibitions:

Financial interests

- (1) (a) *A member or student shall not participate on the engagement team for an assurance client if the member or student, or the immediate family of the member or student, holds a direct financial interest or a material indirect financial interest in the client.*

(b) *A member or student shall not participate on the engagement team for an assurance client if the member or student, or the immediate family of the member or student, holds, as trustee, a direct financial interest or a material indirect financial interest in the client.*
- (2) *A member or firm shall not perform an audit or review engagement for an entity if the member, firm or a network firm, has a direct financial interest or a material indirect financial interest in the entity.*
- (3) *A member or firm shall not perform an audit or review engagement for an entity if a pension or other retirement plan of the firm or network firm has a direct financial interest or a material indirect financial interest in the entity.*
- (4) *A member who is a partner of a firm and who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not practise in the same office as the lead engagement partner for the client.*
- (5) *A member who is a partner or managerial employee of a firm and who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not provide a non-assurance service to the client, unless the non-assurance service is clearly insignificant.*
- (6) (a) *A member or firm shall not perform an audit or review engagement for an entity (the first entity) if the firm or a network firm has a financial interest in a second entity, and the member or firm knows that the first entity or a director, officer or controlling owner of the first entity also has a financial interest in the second entity, unless the respective financial interests of the firm or network firm and the first entity, the director, officer or controlling owner of the first entity are immaterial and the first entity cannot exercise significant influence over the second entity.*

- (b) *A member or student shall not participate on an engagement team for an audit or review client if the member or student has a financial interest in an entity and the member or student knows that the client or a director, officer or controlling owner of the client also has a financial interest in the entity, unless the respective financial interests of the member or student and the client, the director, officer or controlling owner of the client are immaterial and the client cannot exercise significant influence over the entity.*
- (7) (a) *A member or firm shall not perform an audit or review engagement for an entity if a partner or professional employee of the firm owns, or such person's immediate family owns, more than 0.1% of the securities of the entity or controls the entity.*
- (b) *A member who is a partner or professional employee of a firm shall not own more than 0.1% of the securities of, or control, an audit or review client of the firm.*
- (8) *A member or student shall not participate on the engagement team of an audit or review client if the member or student knows that his or her close family owns more than 0.1% of the securities of the client or controls the client.*
- (9) *A member or firm shall not perform an assurance engagement for an entity that is not an audit or review client if the member or firm holds:*
- (i) *a direct financial interest or a material indirect financial interest in the entity; or*
- (ii) *a material financial interest in another entity that has a controlling interest in the first entity.*

Loans and guarantees

- (10)(a) *A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by the client, except when the client is a bank or similar financial institution and the loan or guarantee is immaterial to the firm, the network firm, and the client, and the loan or guarantee is made under normal commercial terms and conditions and is in good standing.*
- (b) *A member or firm shall not perform an assurance engagement for a client that is not a bank or similar financial institution if the firm, or a network firm in the case of an audit or review client, has a loan to the client.*

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- (c) *A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, guarantees a loan of the client.*
- (11)(a) *A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by:*

 - (i) *an officer or director of the assurance client; or*
 - (ii) *a shareholder of the assurance client who owns more than 10% of the equity securities of the client.*

(b) *A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan to or guarantees a loan of:*

 - (i) *an officer or director of the assurance client; or*
 - (ii) *a shareholder of the assurance client who owns more than 10% of the equity securities of the client.*
- (12)(a) *A member or student who has a loan from or has a loan guaranteed by:*

 - (i) *an assurance client, except a client that is a bank or similar financial institution where the loan or guarantee is made under normal commercial terms and conditions and the loan is in good standing,*
 - (ii) *an officer or director of the client, or*
 - (iii) *a shareholder of the client who owns more than 10% of the equity securities of the client,*

shall not participate on the engagement team for the client.

(b) *A member or student who has a loan to or guarantees the borrowing of*

 - (i) *an assurance client that is not bank or similar financial institution;*
 - (ii) *an officer or director of the client; or*
 - (iii) *a shareholder of the client who owns more than 10% of the equity securities of the client*

shall not participate on the engagement team for the client.

Close business relationships

- (13)(a) *A member or firm shall not perform an audit or review engagement for an entity if the firm, or a network firm, has a close business relationship with the entity or its management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm or network firm and the entity or its management, as the case may be.*
- (b) *A member or firm shall not perform an assurance engagement that is not an audit or review engagement if the firm has a close business relationship with the assurance client or its*

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management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm and the client or its management, as the case may be.

- (c) *A member or student who has a close business relationship with an assurance client or its management shall not participate on the engagement team for the client unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the member and the client or its management, as the case may be.*

Family and personal relationships

(14) *A member or student shall not participate on the engagement team for an assurance client if the member's or student's immediate family is a director or officer of the client or an employee of the client in a position to exert direct and significant influence over the subject matter of the engagement, or was in such a position during any period covered by the engagement.*

(15) *A member or student shall not participate on the engagement team for an audit client that is a reporting issuer if the member's or student's close family is in an accounting role or a financial reporting oversight role at the client, or was in such a position during any period covered by the engagement.*

Employment with a reporting issuer audit client

(16) *A member or firm shall not perform an audit engagement for a reporting issuer if a person who participated in an audit capacity in an audit of the financial statements of the entity performed by the member or firm has accepted employment in a financial reporting oversight role with respect to the entity until a period of one year has elapsed from the date that the financial statements were filed with the relevant securities regulator or stock exchange.*

Recent service with an assurance client

(17) *A member or student shall not participate on an engagement team for an assurance client if the member or student served as an officer or director of the client or was an employee thereof in a position to exert direct and significant influence over the subject matter of the engagement during the period covered by the assurance report.*

Serving as an officer or director of an assurance client

(18) *A member or firm shall not perform an assurance engagement for an entity if a member of the firm serves as an officer or director for the entity.*

Serving as an officer or director of an audit or review client

- (19)(a) *A member or firm shall not perform an audit or review engagement for an entity if a member of a network firm serves as an officer or a director of the entity other than, in the case of an entity that is not a reporting issuer, serving as company secretary and the practice is specifically permitted under local law, professional rules or practice, and the duties and functions undertaken are limited to those of a routine and formal administrative nature.*
- (b) *A member or firm shall not perform an audit engagement for a reporting issuer, or a related entity, if a member of the firm or a network firm serves as an officer or a director of a related entity of the reporting issuer.*

Long association of senior personnel with a reporting issuer audit client

- (20)(a)
- (i) *A member shall not continue as the lead engagement partner or the engagement quality control reviewer on an audit engagement of a reporting issuer for more than seven years in total, and shall not thereafter resume or assume either such role until five years have elapsed.*
- (ii) *In the case of an audit engagement of a reporting issuer that is a mutual fund, the lead engagement partner and the engagement quality control reviewer shall not thereafter resume or assume either such role with the reporting issuer or another mutual fund that is in the same mutual fund complex as the reporting issuer until the five-year period has elapsed.*
- (20)(b)
- (i) *A member, who is an audit partner on an audit engagement of a reporting issuer, other than an audit partner referred to in rule 204.4(20)(a), who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or the interim financial information of the reporting issuer or who is a subsidiary engagement partner with respect to the entity shall not continue in such role or roles for more than seven years in total and shall not thereafter perform the role of audit partner of the reporting issuer until a further two years have elapsed.*
- (ii) *In the case of an audit engagement of a reporting issuer that is a mutual fund, the audit partner shall not thereafter perform the role of audit partner of the reporting issuer or another mutual fund that has the same fund complex as the reporting issuer until the further two-year period has elapsed.*

Audit committee approval of services to a reporting issuer audit client

(21) A member or firm shall not provide a professional service to an audit client that is a reporting issuer, or to a subsidiary thereof, without the prior approval of the reporting issuer's audit committee.

Performance of management functions for an assurance client

(22)(a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, a member of the firm makes a management decision or performs a management function for the entity, including:

- (i) authorizing, approving, executing or consummating a transaction;
- (ii) having or exercising authority on behalf of the entity;
- (iii) determining which recommendation of the member or firm will be implemented; or
- (iv) reporting in a management role to those charged with governance of the entity.

(b) A member or firm shall not perform an audit or review engagement for an entity, if a member of a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, makes a management decision or performs a management function for the entity including any of the services listed in paragraph 22(a)(i) to (iv);

(c) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, makes a management decision or performs a management function for the entity, or a related entity, including any of the services listed in paragraph 22(a)(i) to (iv).

Preparation of journal entries and source documents

(23) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm:

- (i) prepares or changes a journal entry, determines or changes an account code or a classification for a transaction or prepares or changes another accounting record without obtaining the approval of management of the entity; or
- (ii) prepares a source document or originating data, or makes a change to such a document or data.

Preparation of accounting records and financial statements for a reporting issuer audit client

- (24) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, firm, a network firm or a member of the firm or a network firm provides accounting or bookkeeping services related to the accounting records or financial statements to be audited including:
- (i) maintaining or preparing the entity's, or related entity's, accounting records;
 - (ii) preparing the financial statements or preparing financial statements which form the basis of the financial statements on which the audit report is provided; or
 - (iii) preparing or originating source data underlying such financial statements,
- unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of such financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the accounting or bookkeeping services will be subject to audit procedures.

Provision of valuation services to a reporting issuer audit client

- (25) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, provides a valuation service to the client or the related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the valuation service will be subject to audit procedures.

Provision of actuarial services to a reporting issuer audit client

- (26) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an actuarial service to the client or a related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the actuarial service will be subject to audit procedures.

Provision of internal audit services to a reporting issuer audit client

(27) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an internal audit service to the client or a related entity, that relates to the client's, or the related entity's, internal accounting controls, financial systems or financial statements unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the internal audit service will be subject to audit procedures.

Provision of IT system services to a reporting issuer audit client

(28) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides financial information systems design or implementation services and the services involve:

- (i) directly or indirectly operating, or supervising the operation of, the entity's or a related entity's information system, or managing the entity's or a related entity's local area network; or
- (ii) designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the entity's or a related entity's financial statements or other financial information systems taken as a whole;

unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the financial information systems design and implementation services will be subject to audit procedures.

Provision of expert services to a reporting issuer audit client

(29) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an expert opinion or other expert service for the entity or a related entity, or for a legal representative thereof, for the purpose of advocating the entity's or related entity's, interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation.

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Provision of legal services to an audit or review client

(30) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides a legal service to the entity in the resolution of a dispute or litigation in circumstances where the matters in dispute or subject to litigation are material in relation to such financial statements.

Provision of legal services to a reporting issuer audit client

(31) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides a legal service to the entity or a related entity.

Human resource services for a reporting issuer audit client

(32) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides any of the following services to the entity or a related entity:

- (i) searching for or seeking out prospective candidates for management, executive or director positions;
- (ii) engaging in psychological testing, or other formal testing or evaluation programs;
- (iii) undertaking reference checks of prospective candidates for an executive or director position;
- (iv) acting as a negotiator or mediator on the entity's behalf with respect to employees or future employees with respect to any condition of employment, including position, status or title, compensation or fringe benefits; or
- (v) recommending or advising the entity or a related entity to hire a specific candidate for a specific job.

Provision of corporate finance and similar activities to an assurance client

(33)(a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, the firm, or a member of the firm, provides any of the following services to the entity:

- (i) promoting, dealing in or underwriting the entity's securities;
- (ii) making investment decisions on behalf of the entity or otherwise having discretionary authority over the entity's

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investments;

(iii) executing a transaction to buy or sell the entity's investments; or

(iv) having custody of assets of the entity, including taking temporary possession of securities purchased by the entity.

(b) A firm shall not perform an audit or review engagement for an entity if a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, provides any of the services listed in paragraph 33(a)(i) to (iv) to the entity.

(c) A firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, provides any of the services listed in paragraph 33(a)(i) to (iv) to a related entity of the reporting issuer.

Pricing

(34) A member or firm shall not provide an assurance service for a fee that the member or firm knows is significantly lower than that charged by the predecessor member or firm, or contained in other proposals for the engagement, unless the member or firm can demonstrate:

(i) that qualified members of the firm have been assigned to the engagement and will devote the appropriate time to it; and

(ii) that all applicable assurance standards, guidelines and quality control procedures have been followed.

Compensation of audit partners of a reporting issuer audit client

(35) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, an audit partner who is on the engagement team for the reporting issuer or a related entity earns or receives compensation based on the audit partner procuring any engagement that is not an assurance engagement from the reporting issuer or a related entity, unless the member firm or the firm has fewer than five audit clients that are listed entities and fewer than ten partners.

Gifts and hospitality

(36) A member or student who participates on an engagement team for an assurance client and the member's or student's firm shall not accept a gift or hospitality, including a product or service discount, from the client or a related entity, unless the gift or hospitality is clearly insignificant to the member, student or firm, as the case may be.

Rule 204.5 Members Must Disclose Prohibited Interests and Relationships

A member or student who has a relationship or interest, or who has provided a professional service, that is precluded by this Rule shall advise in writing a designated partner of the firm of the interest, relationship or service.

A member or student who has been assigned to an engagement team for an assurance client shall advise, in writing, a designated partner of the firm of any interest, relationship or activity that would preclude the person from being on the engagement team.

Rule 204.6 Firms To Ensure Compliance by Partners and Professional Employees

A firm that performs an assurance engagement shall ensure that members of the firm do not have a relationship or interest, do not perform a service and remain free of any influence that would preclude the firm from performing the engagement pursuant to Rules 204.1, 204.2, 204.4 or 204.7.

COUNCIL INTERPRETATIONS TO RULES 204.1 TO 204.6 – INDEPENDENCE IN ASSURANCE AND SPECIFIED AUDITING PROCEDURES ENGAGEMENTS

Definitions

For the purposes of Rules 204.1 to 204.8 and the related Council Interpretations: “**accounting role**” means a position in which a person may or does exercise more than minimal influence over:

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

“**assurance client**” means an entity in respect of which a member or firm has been engaged to perform an assurance engagement.

“**assurance engagement**” means an assurance engagement as contemplated in the CICA Handbook – Assurance.

“**audit client**” means an entity in respect of which a member or firm has been engaged to perform an audit of the financial statements. In the application of Rule 204.4(1) to (12) “audit client” includes its related entities, and the reference to an assurance client, a client or an entity that is an audit client shall be read as including all related entities of the assurance client, client or entity as the case may be.

“**audit committee**” means the audit committee of the entity, or if there is no audit committee another governance body which has the duties and responsibilities normally granted to an audit committee.

“audit engagement” means an engagement to audit financial statements as contemplated in the CICA Handbook – Assurance.

“audit partner” means a person who is a partner in a firm or a person who has equivalent responsibility, other than a specialist or technical partner or equivalent who consults with others on the engagement team regarding technical or industry-specific issues, transactions or events, who is a member of the audit engagement team having responsibility for decision-making on significant auditing, accounting, and reporting matters that affect the financial statements, or who maintains regular contact with management and the audit committee, and includes the following:

- (a) the lead engagement partner;
- (b) the engagement quality control reviewer;
- (c) another partner who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or interim financial information of the client; and
- (d) a subsidiary entity engagement partner.

“clearly insignificant” means trivial and inconsequential.

“close family” means a parent, non-dependent child or sibling.

“direct financial interest” means 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);
- (b) beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control;
- (c) owned through an investment club or by a private mutual fund in which the individual participates in the investment decisions.

“engagement quality control reviewer”, often referred to as reviewing, concurring or second partner, means the audit partner who, prior to issuance of the audit report, evaluates the significant judgments made by the lead engagement partner and other persons on an engagement team, the conclusions reached in formulating the audit report and other significant matters that have come to the partner’s attention.

“engagement team” means:

- (a) each member of the firm participating in the assurance engagement;
- (b) all other members of 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. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through to the firm’s chief executive officer;
 - (ii) those who provide consultation regarding technical or industry-specific issues, transactions or events for the assurance engagement; and
 - (iii) those who provide quality control for the assurance engagement; and
- (c) in the case of an audit client, all persons in a network firm who can

directly influence the outcome of the audit engagement.

“financial interest” includes a direct or indirect ownership 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 reporting oversight role” means a position in which a person may or does exercise influence over:

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

“firm” means a sole practitioner, partnership, [provinces add professional corporation where appropriate] or association of members who carries or carry on the practice of public accounting, or carries or carry on related activities as defined by the Council.

“fund manager” means, with respect to a mutual fund, an entity that is responsible for investing the mutual fund’s assets, managing its portfolio trading and providing it with administrative and other services, pursuant to a management contract;

“immediate family” means a spouse (or equivalent) or dependant.

“indirect financial interest” means a financial interest beneficially owned through a collective investment vehicle such as a mutual fund, estate, trust or other intermediary over which the beneficial owner has no control.

“lead engagement partner” means the audit partner having primary responsibility for an audit or review engagement.

“market capitalization” in respect of a particular fiscal year means the average market price of all outstanding listed securities and publicly traded debt of the entity measured at the end of each of the first, second and third quarters of the prior fiscal year and the year-end of the second prior fiscal year.

“member of a firm” or **“member of the firm”**, as the case may be, means a person, whether or not a member of a provincial Institute or Ordre, who is:

- (a) a sole practitioner;
- (b) a partner, professional employee or student of the firm;
- (c) an individual engaged under contract by the firm to provide services that might otherwise be provided by a partner or professional employee of a firm;
- (d) an individual who provides to the firm services which are referred to in Rule 204.1 and includes any corporate or other entity through which the individual contracts to provide such services; or
- (e) a retired partner of the firm who retains a close association with the firm.

“mutual fund” means a mutual fund that is a reporting issuer under the applicable Canadian provincial or territorial securities legislation;

“mutual fund complex” means:

- (a) a mutual fund that has the same fund manager as a client;
- (b) a mutual fund that has a fund manager that is controlled by the fund manager of a client;
- and
- (c) a mutual fund that has a fund manager that is under common control with the fund manager of a client.

“network firm” means an entity under common control, ownership or management with a firm, or any entity that a reasonable observer who has

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knowledge of the facts would conclude to be part of a firm nationally or internationally. A network firm does not include an entity that constitutes a related business or practice, as defined, in Canada.

“office” means a distinct sub-group of a firm, whether organized on geographical or practice lines.

“related entity” means:

- (a) in the case of a client that is a reporting issuer, an entity that has control over a client, or over which the client has control, or that is under common control with a client, including the client's parent company and any subsidiaries;
- (b) in the case of a client that is not a reporting issuer:
 - (i) an entity over which the client has control;
 - (ii) an entity that has control over the client provided the client is material to such entity;
 - and
 - (iii) an entity that is under common control with the client provided such entity and the client are both material to the controlling entity;
- (c) in any case, an entity over which a client has significant influence, unless the entity is not material to the client; and
- (d) in any case, an entity that has significant influence over a client, unless the client is not material to the entity;

“reporting issuer” means an entity that is deemed to be a reporting issuer under applicable Canadian provincial or territorial securities legislation, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares, units or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

- (a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering; and
- (b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization.

“review client” means an entity in respect of which a member or firm conducts a review engagement. In the application of Rule 204.4(1) to (12) “review client” includes its related entities, and the reference to an assurance client, a client or an entity that is a review client shall be read as including all related entities of the assurance client, client or entity, as the case may be.

“review engagement” means an engagement contemplated in the CICA Handbook – Assurance.

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“specified auditing procedures engagement” means an engagement contemplated in “Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other Than Financial Statements,” Section 9100 of the CICA Handbook – Assurance.

“subsidiary entity engagement partner” means the lead engagement partner for an audit engagement related to the annual financial statements or interim financial information of an entity that is a subsidiary or joint venture of an audit client and whose assets or revenues constitute 20% or more of the assets or revenues of the audit client’s respective consolidated assets or revenues.

“total assets” in respect of a particular fiscal year means the amount of total assets presented on the third quarter of the prior fiscal year’s financial statements prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange. In the case of an entity that is not required to file quarterly financial statements, total assets in respect of a particular fiscal year means the amount of total assets presented on the annual financial statements of the second previous fiscal year prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange.

INTRODUCTION

- 1 It is a fundamental principle of the practice of Chartered Accountancy that a member who provides assurance services shall do so with unimpaired professional judgement and objectivity, and shall be seen to be doing so by a reasonable observer. This principle is the foundation for public confidence in the reports of assurance providers.
- 2 The confidence that professional judgement has been exercised depends on the unbiased and objective state of mind of the reporting accountant, both in fact and appearance. Independence is the condition of mind and circumstance that would reasonably be expected to result in the application by a member of unbiased judgment and objective consideration in arriving at opinions or decisions in support of the member's report.
- 3 Rule 204.1 provides that a member or firm who engages or participates in an engagement:
 - (a) to issue a written communication under the terms of any assurance engagement; or
 - (b) to issue a report on the results of applying specified auditing procedures;must be independent of the client. Independence requires the avoidance of situations which impair the professional judgment or objectivity of the member, firm or a member of the firm or which, in the view of a reasonable observer, would impair that professional judgment or objectivity.
- 4 Rule 204.2 provides that a member or firm, who is required to be independent pursuant to Rule 204.1 in respect of a particular engagement, must identify and evaluate threats to independence and, if they are not clearly insignificant, identify and apply safeguards to reduce them to an acceptable level. Where safeguards are not available to reduce the threats to an acceptable level the member or firm must eliminate the activity, interest or relationship creating the threats, or refuse to accept or continue the engagement. Rule 204.3 requires the member or firm to document compliance with Rule 204.2.
- 5 Rule 204.4 describes circumstances and activities which members and firms must avoid when performing assurance and specified auditing procedure engagements because adequate safeguards will not exist that will, in the view of a reasonable observer, eliminate the threat or reduce it to an acceptable level, as required by Rule 204.2. The requirements to avoid these circumstances and activities are referred to as "prohibitions."
- 6 Rule 204.5 provides that a member or student must disclose breaches of the Rule to a designated partner in the firm. It also provides that, when a member or student has been assigned to an engagement team, the member or student must disclose to a designated partner any interest, relationship or activity that would preclude the member or student from being on the engagement team.

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- 7** Rule 204.6 provides that a firm must ensure that members of the firm comply with Rule 204.4. The Rule provides that a firm shall not permit a member of the firm to have a relationship with or an interest in an assurance client, or provide a service to an assurance client, which is precluded by Rule 204.
- 8** This Council Interpretation describes a conceptual framework of principles that members and firms should use to identify threats to independence and evaluate their significance. If the threats are other than clearly insignificant, the member or firm should identify available safeguards. Some safeguards may already exist within the structure of the firm or the client, while others may be created by the action of the member, firm or client. Safeguards should be identified and, where applicable, applied to eliminate the threats or reduce them to an acceptable level. Members should exercise professional judgment to determine which safeguards to apply and whether the safeguards will permit the member or firm to accept or continue the engagement.
- 9** The effectiveness of safeguards largely depends on the culture of the particular firm. Therefore, the Council encourages leaders of firms to stress the importance of compliance with Rule 204 and emphasize the expectation that members of the firm will act in the public interest. In doing so, firms should create and monitor effective policies and procedures designed to preserve the independence of the firm and its partners and employees when required by Rule 204.
- 10** The examples presented herein are intended to illustrate the application of the principles; they are not, nor should they be interpreted as, an exhaustive list of all circumstances that may create a threat to independence. Consequently, it is not sufficient for a member or a firm merely to comply with the examples presented. Rule 204.2 requires that they apply the principles to any particular circumstance encountered, whether or not the examples used in the Council Interpretation, or the prohibitions set out in Rule 204.4, reflect those circumstances.
- 11** These examples describe specific circumstances and relationships that may create threats to independence. They also describe the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. While the examples relate to the audit or review of financial statements and other assurance engagements, they also apply to engagements to issue a report on the results of applying specified auditing procedures as required by Rule 204.1(b).
- 12** This Council Interpretation sets out how, in the Council's opinion, a reasonable observer might view certain situations in the application of Rule 204.1 to 204.6. The reasonable observer is a hypothetical individual who has knowledge of the facts which the member knew or ought to have known, including the safeguards applied, and who applies judgment

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objectively, with integrity and due care. Members should also refer to the Foreword to the Rules, which provides the rationale for establishing the reasonable observer principle.

- 13** Members are reminded that for the purposes of Rules 204.1 to 204.6, independence includes both independence of mind and independence in appearance. As stated in Rule 204.1, independence requires the absence of any influence, interest or relationship which would impair the professional judgment or objectivity of the member or a member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member or a member of the firm. Frequently it is appearance of independence, or lack thereof, that poses the greatest challenge. In all situations, members should reflect on the wording of the Rule and Council Interpretation to ensure compliance with the spirit and intent of the Rule and Council Interpretation.
- 14** If, after considering the rules and this Council Interpretation, members are uncertain as to their correct application, they are encouraged to discuss the matter with partners, professional colleagues or Institute staff. Members may also request the view of the professional conduct committee.
- 15** Members should also be cognizant of any relevant Canadian or foreign legislation that may preclude a member from accepting or continuing an engagement. Members are cautioned that legislation under which corporations and other enterprises are incorporated or governed may impose differing requirements in respect of independence. Members should satisfy both the requirements of any governing legislation and these Rules of Professional Conduct.
- 16** Members and firms are reminded that Rules 204.7 and 204.8 deal respectively with independence standards for insolvency engagements and the requirement to disclose when the appearance of independence may be lacking in other engagements.

THE FRAMEWORK

- 17** The objective of this Council Interpretation is to assist members and firms in:
 - (a) identifying and evaluating threats to independence; and
 - (b) identifying and applying appropriate safeguards to eliminate or reduce the threat or threats to an acceptable level in instances where their cumulative effect is not clearly insignificant.This Council Interpretation also describes those situations referred to in Rule 204.4 where safeguards are not available to reduce a threat or threats to an acceptable level, and the only possible actions are to eliminate the activity, interest or relationship creating them, or to refuse to accept or continue the assurance engagement.
- 18** The use of the word “independence” on its own may create

misunderstandings. Standing alone, the word may suggest that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as everyone has relationships with others. Therefore, members should evaluate the significance of economic, financial and other relationships in the light of what a reasonable observer would conclude to be acceptable in maintaining independence.

- 19** In making this evaluation, many different circumstances may be relevant. Accordingly, it is impossible to define every situation that creates a threat to independence and specify the appropriate mitigating action. In addition, because of differences in the size and structure of firms, the nature of assurance engagements and client entities different threats may exist, that require the application of different safeguards. A conceptual framework that requires members and firms to identify, evaluate and address threats to independence, rather than merely comply with a set of specific and perhaps arbitrary rules, is, therefore, in the public interest.
- 20** Based on such an approach, this Council Interpretation describes a conceptual framework of principles for compliance with Rules 204.1 to 204.6. Members, firms and network firms should use this conceptual framework to identify threats to independence, to evaluate their significance and, if they are other than clearly insignificant, to identify and apply safeguards to eliminate them or reduce them to an acceptable level, so that independence of fact and appearance are not impaired. In addition, consideration should be given to whether relationships between members of the firm who are not on the engagement team and the assurance client may also create threats to independence. Where safeguards are not available to reduce threats to an acceptable level, the member, firm or network firm should eliminate the activity, interest or relationship creating the threats, or the member or firm should refuse to accept or continue the particular engagement.
- 21** Rule 204.1 requires members and firms to be independent in fact and in appearance. The requirement to comply with the specific prohibitions set out in Rule 204.4 does not relieve a firm from complying with Rules 204.1 and 204.2 and the need to apply the conceptual framework and determine on a principles-based approach whether or not the firm is independent with respect to all assurance engagements, including audit and review engagements.
- 22** Rule 204.1 and therefore, the principles in this Council Interpretation apply to all assurance engagements and engagements to issue a report on the results of applying specified auditing procedures. The nature of the threats to independence and the applicable safeguards necessary to eliminate them or reduce them to an acceptable level will differ depending on the particulars of the engagement. Differences in threats and safeguards will arise, for example, if the engagement is an audit or review engagement or another type of assurance engagement; and, in the case of an assurance

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engagement that is not an audit or review engagement, in the purpose, subject matter and intended users of the report. Members and firms should, therefore, evaluate the relevant circumstances, the nature of the engagement and the entity, the threats to independence and the adequacy of available safeguards in deciding whether it is appropriate to accept or continue an engagement, and whether a particular person should be on the engagement team.

- 23** For audit clients and review clients, the persons on the engagement team, the firm and network firms should be independent of the client. In the case of an assurance engagement where the client is neither an audit nor a review client, those on the engagement team and the firm should be independent of the client. In addition, in the case of an engagement that is not an audit or review engagement, consideration should be given to any threats the firm has reason to believe may be created by the interests and relationships of network firms.
- 24** The term “firm” means a sole practitioner, partnership or association of members who carries or carry on the practice of public accounting, or carries or carry on related activities as defined by the Council. A related activity includes a related business or practice that is cross-referenced with a practice of public accounting or with any other business or practice which is cross-referenced with a practice of public accounting in accordance with Bylaw 311. In those jurisdictions where a member or a firm may practise in a corporate form, firm includes a professional corporation.
- 25** The term “network firm” means an entity under common control, ownership or management with a firm or an entity that a reasonable observer who has knowledge of the facts would conclude to be part of the firm nationally or internationally. The term “network firm” does not, however, include a related business or practice, as defined, in Canada.
- 26** The references to “firms” and “network firms” in Rules 204.1 to 204.6 and this Council Interpretation should be read as referring to those entities themselves and not to the persons who are partners or employees thereof.
- 27** An engagement to report on the results of applying specified auditing procedures is not an assurance engagement as contemplated in the CICA Handbook – Assurance. However, for the purposes of Rules 204.1 to 204.6 and this Council Interpretation, the principles contained herein applicable to an assurance engagement, other than an audit or review engagement, also apply to an engagement to report on the results of applying specified auditing procedures. In so applying those principles, the reference to an assurance client is to be read as a reference to a client where the engagement is to report on the results of applying specified auditing procedures.
- 28** In the case of an assurance report to an assurance client that is not an audit client or a review client where the report is intended only for the use

of identified users, as contemplated in the CICA Handbook – Assurance, the users of the report are considered to be knowledgeable as to the purpose, subject matter and limitations of the report. Users gain such knowledge through their participation in establishing the nature and scope of the member's or firm's engagement, including the criteria by which the particular subject matter is to be evaluated. The member's or firm's knowledge and enhanced ability to communicate about safeguards with all the report's users increase the effectiveness of safeguards to independence in appearance. Therefore, the member or firm may take these circumstances into account when evaluating the threats to independence and considering the applicable safeguards necessary to eliminate them or reduce them to an acceptable level. With respect to network firms, limited consideration of any threats created by their interests and relationships may be sufficient.

- 29** The effect of Rules 204.1 to 204.6 is that:
- (a) For an assurance engagement for a client that is an audit or review client, those on the engagement team, the firm and network firms are required to be independent of the client.
 - (b) For an assurance engagement for a client that is not an audit or review client, when the assurance report is not intended only for the use of identified users, those on the engagement team and the firm are required to be independent of the client.
 - (c) For an assurance engagement for a client that is not an audit or review client, when the assurance report is intended only for the use of identified users, those on the engagement team are required to be independent of the client. In addition, the firm should not have a material direct or indirect financial interest in the client.
- 30** The threats and safeguards identified in this Council Interpretation are generally discussed in the context of interests or relationships between the firm, a network firm, those on the engagement team and the assurance client. In the case of an audit or review client the prohibitions with respect to financial interests are extended to related entities of the client and in the case of an audit client that is a reporting issuer, the prohibitions with respect to the provision of non-assurance services are extended to related entities of the audit client. For assurance clients other than audit and review clients, when the engagement team has reason to believe that a related entity of the client is relevant to the evaluation of the firm's independence, the engagement team should consider that related entity when evaluating threats to independence and applying appropriate safeguards.
- 31** For the purposes of Rules 204.1 to 204.6 a related entity of a client that is a reporting issuer means
- an entity that has control over a client;
 - an entity over which the client has control;
 - an entity which is under common control with the client;

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- an entity over which the client has significant influence, unless the entity is not material to the client; and
- an entity which has significant influence over the client, unless the client is not material to the entity.

The definition of a related entity for a client that is not a reporting issuer excludes from the above an entity that has control over the client if the client is not material to the entity, and an entity under common control with the client if both the client and the entity under common control are not material to the entity that controls them.

32 In determining whether significant influence exists members should follow the guidance established in the CICA Handbook – Accounting. Ideally, the client's related entities and the interests and relationships that involve the related entities should be identified in advance.

33 A retired partner who retains a close association with the firm from which the partner has retired is considered to be a member of the firm for the purposes of Rules 204.1 to 204.6 and the related Council Interpretation. Retired partners may have varying degrees of involvement with the firm. When a retired partner continues to provide administrative or client service for or on behalf of the firm, the partner may be closely associated with the firm. The following factors may indicate that the partner retains a close association with the firm:

- the nature and extent of the retired partner's client and administrative activities within the firm may be more than clearly insignificant and transitional;
- the retired partner holds a direct or indirect financial interest in the firm, including share-based retirement income that may fluctuate with the firm's income; and
- the retired partner is held out to be a member of the firm through, for example, having a separate, identified office on the firm's premises, acting as its spokesperson or representative, using a firm business card or having a listing in the firm's telephone directory for other than a predetermined period of time following retirement.

When evaluating whether a retired partner has a close association with the firm, consideration should be given to how a reasonable observer would regard the association.

34 Rules 204.1 to 204.4 and this Council Interpretation bring the independence of a network firm into consideration when evaluating the independence of a member or firm for an audit or review engagement. It is the member's or firm's responsibility to determine whether the network firm and its members have any interests or relationships or provide any services that would create threats to independence.

35 The ongoing evaluation and disposition of threats to independence should be supported by evidence obtained both before accepting an engagement and while it is being performed. The obligation to make such evaluation and take action arises when a member of a firm or network firm knows, or

should reasonably be expected to know, of circumstances or relationships that might impair independence. There may be occasions when a member, a firm or a network firm is inadvertently in breach of the principles in this Council Interpretation. If such an inadvertent breach occurs, it would generally not impair independence for the purposes of Rules 204.1 to 204.6, provided the firm had appropriate quality control policies and procedures in place to promote independence and, once discovered, the breach was corrected promptly and any necessary safeguards were applied. An inadvertent breach would include a situation where the member did not know of the circumstances that created the breach.

- 36** Rules 204.1 to 204.6 and this Council Interpretation describe the threats to independence and analyzes safeguards that may be capable of eliminating them or reducing them to an acceptable level. It concludes with some examples of how this conceptual framework to independence is to be applied to specific circumstances and relationships and the relevant threats and safeguards. The examples are not all inclusive. Professional judgment should be used to determine whether appropriate safeguards exist to eliminate all threats to independence or to reduce their cumulative effect to an acceptable level. In some examples, it may be possible to eliminate the threat or reduce it to an acceptable level by the application of safeguards. In some other examples, the threat or threats to independence will be so significant that the only possible actions are to eliminate the activity, interest or relationship creating the threat or threats, or to refuse to accept or continue the engagement.
- 37** When a member or firm identifies a threat to independence that is not clearly insignificant, and the member or firm decides to apply appropriate safeguards and accepts or continues the assurance engagement, the decision should be documented in accordance with Rule 204.3. The documentation should include the following information:
- (a) a description of the nature of the engagement;
 - (b) the threat identified;
 - (c) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and
 - (d) an explanation of how, in the member or firm's professional judgment, the safeguards eliminate the threat or reduce it to an acceptable level.
- 38** Throughout this Council Interpretation, reference is made to "significant" and "clearly insignificant." In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is both trivial and inconsequential.

THREATS TO INDEPENDENCE

- 39** Independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats. The mere existence of such threats

does not per se mean that the performance of a prospective engagement is precluded. The undertaking or continuation of engagement is only precluded where safeguards are not available to eliminate or reduce the threats to an acceptable level or where Rule 204.4 provides a specific prohibition.

- 40** A **Self-Interest Threat** occurs when a firm or a person on the engagement team could benefit from a financial interest in, or other self-interest conflict with, an assurance client. Examples of circumstances that may create a self-interest threat include, but are not limited to:
- (a) a direct financial interest or material indirect financial interest in an assurance client;
 - (b) a loan or guarantee to or from an assurance client or any of its directors or officers;
 - (c) dependence by a firm, office or member on total fees from an assurance client;
 - (d) undue concern about the possibility of losing the engagement;
 - (e) compensating an audit partner for selling non-audit services to an audit client;
 - (f) having a close business relationship with an assurance client; and
 - (g) potential employment with an assurance client.
- 41** A **Self-Review Threat** occurs when any product or judgment from a previous engagement needs to be evaluated in reaching conclusions on the particular assurance engagement, or when a person on the engagement team was previously a director or officer of the client, or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement.
- Examples of circumstances that may create a self-review threat include, but are not limited to:
- (a) a person on the engagement team being, or having recently been, a director or officer of the client;
 - (b) a person on the engagement team being, or having recently been, an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the engagement;
 - (c) a member or firm performing services for an assurance client that directly affect the subject matter of the engagement; and
 - (d) a member or firm preparing original data used to generate financial statements or preparing other records that are the subject matter of the engagement.
- 42** An **Advocacy Threat** occurs when a firm, or a person on the engagement team, promotes, or may be perceived to promote, an assurance client's position or opinion to the point that objectivity may be, or may be perceived to be, impaired. Such would be the case if a person on the engagement team were to subordinate his or her judgment to that of the client, or the firm were to do so. Examples of circumstances that may create an advocacy threat include, but are not limited to:
- (a) dealing in, or being a promoter of, shares or other securities of an assurance client; and

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- (b) acting as an advocate on behalf of an assurance client in litigation or in resolving disputes with third parties.

43 A **Familiarity Threat** occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a person on the engagement team becomes too sympathetic to the client's interests. Examples of circumstances that may create a familiarity threat include, but are not limited to:

- (a) a person on the engagement team having an immediate or close family member who is director or officer of the assurance client;
- (b) a person on the engagement team having an immediate or close family member who, as an employee or shareholder of the assurance client, is in a position to exert direct and significant influence over the subject matter of the assurance engagement;
- (c) a former partner of the firm being a director, officer or employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement;
- (d) the long association of a senior person on the engagement team with the assurance client; and
- (e) the acceptance of gifts or hospitality from the assurance client, its directors, officers or employees, unless the value thereof is clearly insignificant.

44 An **Intimidation Threat** occurs when a person on the engagement team may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client. Examples of circumstances that may create an intimidation threat include, but are not limited to:

- (a) the threat of being replaced due to a disagreement with the application of an accounting principle; and
- (b) the application of pressure to inappropriately reduce the extent of work performed in order to reduce or limit fees.

SAFEGUARDS

45 Members and firms have an ongoing responsibility to comply with Rules 204.1 to 204.6 by taking into account the context in which they practise, the threats to independence and the safeguards which may be available to eliminate the threats or reduce them to an acceptable level. Safeguards fall into three broad categories:

- (a) safeguards created by the profession, legislation or regulation;
- (b) safeguards within the assurance client; and
- (c) safeguards within the firm's own systems and procedures.

46 Safeguards created by the profession, legislation or regulation include the following:

- (a) education, training and practical experience requirements for entry into the profession;
- (b) continuing education programs;
- (c) professional standards;

- (d) external practice inspection;
 - (e) disciplinary processes;
 - (f) members' practice advisory services;
 - (g) participation by members of the public in oversight and governance of the profession; and
 - (h) legislation governing the independence requirements of the firm and its members.
- 47** Safeguards within the assurance client may include the following:
- (a) employees of the client who are competent to make management decisions;
 - (b) policies and procedures that emphasize the client's commitment to fair financial reporting;
 - (c) internal procedures that ensure objective choices in commissioning non-assurance engagements; and
 - (d) an audit committee that provides appropriate oversight and communications regarding a firm's services.
- 48** When audit committees are independent of client management they can have an important corporate governance role and can assist the board of directors in satisfying themselves that a member or a firm is independent in carrying out its audit role. The requirements for annual communication with the audit committee on matters relating to independence are included in the *CICA Handbook – Assurance*.
- 49** Firms should establish policies and procedures for independence-related communications with audit committees. Matters to be communicated will vary in each circumstance and should be decided by the firm, but should generally address the relevant matters set out in the *CICA Handbook - Assurance*.
- 50** Safeguards within the firm's own systems and procedures may include firm-wide safeguards such as the following:
- (a) firm leadership that stresses the importance of independence and the expectation that persons on engagement teams will act in the public interest;
 - (b) policies and procedures to implement and monitor quality control of assurance engagements;
 - (c) documented independence policies regarding the identification of threats to independence, the evaluation of their significance and the identification and application of appropriate safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level;
 - (d) internal policies and procedures, including annual reporting by members of the firm, to monitor compliance with firm policies and procedures as they relate to independence;
 - (e) policies and procedures that will enable the identification of interests or relationships between the firm or those on the engagement team

- and assurance clients;
- (f) policies and procedures to monitor and manage the reliance on revenue received from a single assurance client;
- (g) internal performance measures that do not put excessive pressure on partners to generate non-assurance revenue from their assurance clients and do not over emphasize budgeted hours;
- (h) using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client;
- (i) policies and procedures to prohibit members of the firm who are not on the engagement team from influencing the outcome of the assurance engagement;
- (j) timely communication of a firm's policies and procedures, and any changes thereto, to all members of the firm, including appropriate training and education thereon;
- (k) designating a member of the firm's senior management as responsible for overseeing the adequate functioning of the safeguarding system;
- (l) means of advising all members of the firm of those clients and related entities from which they should be independent;
- (m) an internal disciplinary mechanism to promote compliance with firm policies and procedures; and
- (n) policies and procedures that empower members of the firm to communicate, without fear of retribution, to senior levels within the firm any issue of independence and objectivity that may concern them.

51 Safeguards within the firm's own systems and procedures may include engagement-specific safeguards such as the following:

- (a) involving another person to review the work done or advise as necessary. This person could be someone from outside the firm or network firm, or someone from within who was not otherwise associated with the engagement team. The person should be independent of the assurance client and will not, by reason of the review performed or advice given, be considered to be on the engagement team;
- (b) consulting a third party, such as a committee of independent directors, a professional regulatory body or a professional colleague;
- (c) rotating senior personnel on the engagement team;
- (d) discussing independence issues with the audit committee;
- (e) disclosing to the audit committee, the nature of services provided and extent of fees charged;
- (f) policies and procedures designed to ensure that persons on the engagement team do not make, or assume responsibility for, management decisions for the client;
- (g) involving another firm to perform or re-perform part of the assurance engagement;
- (h) involving another firm to re-perform the non-assurance service; and
- (i) removing a person from the engagement team, when that person's financial interests, relationships or activities create a threat to

independence.

PRACTITIONERS WITH SMALL OR OWNER-MANAGED CLIENTS

- 52** The size and structure of the firm and the nature of the assurance client and the engagement will affect the type and degree of the threats to independence and, consequently, the types of safeguards appropriate to eliminate such threats or reduce them to an acceptable level. For example, it is understood that not all the safeguards noted in paragraphs 47 – 51 will be available to the sole practitioner or small firm or within smaller clients such as owner-managed entities. Smaller clients often rely on members to provide a broad range of accounting and business services. Independence will not be impaired provided such services are not specifically prohibited by Rule 204.4 and provided safeguards are applied to reduce any threat to an acceptable level. In many circumstances, explaining the result of the service and obtaining client approval and acceptance for the result of the service will be an appropriate safeguard for such smaller entities. Similarly, such clients often have a long-standing relationship with an individual who is a sole practitioner or partner from a firm. Independence will not be impaired provided safeguards are applied to reduce any familiarity threat to an acceptable level. In most circumstances, periodic external practice inspection and, where appropriate, consultation will reduce any threat to independence to an acceptable level.

ENGAGEMENT PERIOD

- 53** The firm and those on the engagement team should be independent of the assurance client during the period of the assurance engagement. This period starts when the member or firm engages to perform the assurance service and ends when the assurance report is issued, except when the engagement is of a recurring nature. If the assurance engagement is expected to recur, the engagement period ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later. In the case of an audit engagement for a reporting issuer the engagement period ends when the audit client or the firm notifies the relevant Securities Commission that the audit client is no longer an audit client of the firm.
- 54** In the case of an audit or review engagement, independence is also required during the period covered by the financial statements reported on by the member or firm. When an entity becomes an audit or review client during or after the period covered by the financial statements that the member or firm will report on, the member or firm should consider whether any threats to independence may be created by:
- (a) financial or business relationships with the client during or after the period covered by the financial statements, but prior to the acceptance of the engagement; or
 - (b) previous services provided to the client.
- Similarly, in the case of an assurance engagement that is not an audit or review engagement, the member or firm should consider whether any

financial or business relationships or previous services may create threats to independence.

- 55** If a non-assurance service was provided to an audit or review client during or after the period covered by the financial statements but before the commencement of professional services in connection with the audit or review engagement, and the non-assurance service would impair independence if it had been provided during the period of the audit or review engagement, consideration should be given to the threats to independence, if any, arising from the provision of the non-assurance service. If a threat is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level. Such safeguards might include:
- (a) discussing independence issues related to the provision of the non-assurance service with the audit committee;
 - (b) requiring the client to review and accept responsibility for the results of the non-assurance service;
 - (c) precluding personnel who provided the non-assurance service from participating in the audit or review engagement; and
 - (d) engaging another firm to review the results of the non-assurance service or having another firm re-perform that service.

If adequate safeguards are not available to reduce a threat to an acceptable level, the member or firm should decline the audit or review engagement.

REPORTING ISSUERS

- 56** A non-assurance service provided to an audit client that is not a reporting issuer would not impair the firm's independence when the client becomes a reporting issuer, provided:
- (a) the previous non-assurance service was not prohibited by Rule 204.4 for an audit client that is not a reporting issuer; and
 - (b) the firm had implemented appropriate safeguards to eliminate or reduce to an acceptable level any threats to independence arising from the previous service.
- 57** For the purposes of Rule 204.4 an entity becomes a reporting issuer by virtue having market capitalization or total assets in excess of \$10,000,000. In the case of a period in which an entity makes a public offering, market capitalization is measured at the closing price on the day of the public offering and total assets refers to the total assets presented on the most recent financial statements, prepared in accordance with generally accepted accounting principles, that are included in the offering document.
- 58** When an entity becomes a reporting issuer by virtue of a public offering, the auditor of the entity is required, from that period forward until the entity ceases to be a reporting issuer, to comply with the specific prohibitions contained in Rule 204.4 that relate to an audit of a reporting issuer. For example, bookkeeping services may not be provided following the date of an initial public offering where the market capitalization or total assets of

the entity exceed \$10,000,000. The provision of bookkeeping services to the entity prior that date would not impair the firm's independence provided the services were not prohibited by Rule 204.4(23) and provided the firm had implemented appropriate safeguards to eliminate, or reduce to an acceptable level, any threats to independence arising from the provision of the services. Such safeguards might include:

- discussing the matter with the audit committee; or
- involving an additional member of the firm who is not, and never was, on the engagement team to advise on the impact of the bookkeeping services provided on the independence of the persons on the engagement team and the firm.

APPLICATION OF THE FRAMEWORK

59 The following examples describe the application of the framework to specific circumstances and relationships that may create threats to independence. The examples describe potential threats created and safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level. The examples are not intended to be comprehensive or all-inclusive. In practice, when independence is required, members and firms should assess the implications of all circumstances and relationships and, where required, assess those of network firms, to determine whether there are threats to independence that are other than clearly insignificant and, if they exist, whether safeguards can be applied to satisfactorily address them. In situations where safeguards are not available to reduce a threat or threats to an acceptable level, the only possible actions are to eliminate the activity, interest or relationship creating the threats, or to refuse to accept or continue the assurance engagement.

A. FINANCIAL INTERESTS

60 A financial interest in an assurance client may create a self-interest threat. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, whether that interest is material and whether it is direct or indirect.

61 When evaluating whether a financial interest is direct or indirect, consideration should be given to the fact that financial interests range from those where the individual has no control over the investment vehicle or the financial interest held (e.g., a mutual fund or similar intermediary vehicle) to those where the individual has control over the financial interest (e.g., as a trustee) or is able to influence investment decisions of the entity in which the particular financial interest exists. In evaluating the significance of any threat to independence, it is important to consider the degree of control or influence that can be exercised over the intermediary, the financial interest held, or the intermediary's investment strategy. When control exists, the financial interest should be considered direct.

Conversely, when control does not exist the financial interest should be considered indirect.

- 62** In the application of Rules 204.4(1) to (12) to an audit or review client the reference to an assurance client, a client or an entity includes related entities, as defined, of the assurance client, client or entity, as the case may be.

Assurance clients

- 63** Rule 204.4(1) provides that a member or student who participates on an engagement team for an assurance client, including an audit or review client, and the member's or student's immediate family may not hold a direct financial interest or a material indirect financial interest in the assurance client.

- 64** A reasonable observer will not view a member who holds a direct financial interest or material indirect financial interest as a trustee differently than someone who holds the interest beneficially. Accordingly Rule 204.4(1) applies to members, students and immediate family of members or students who hold a direct financial interest or material indirect financial interest in the capacity of a trustee.

- 65** When a person on an engagement team, or any of the person's immediate family, receives, for example, by way of gift or inheritance or as a result of a merger or reorganization, a direct financial interest or a material indirect financial interest in a particular assurance client, or a related entity of the client in the case of an assurance client that is an audit or review client, one of the following actions should be taken to comply with Rule 204.4(1):

- dispose of the financial interest at the earliest practical date but no later than 30 days after the person has knowledge of the financial interest and the right or ability to dispose of it; or
- remove the person from the engagement team.

During the period prior to disposal of the financial interest or the removal of the person from the engagement team, consideration should be given to whether additional safeguards are necessary to reduce the threat to independence to an acceptable level. Such safeguards might include:

- discussing the matter with the audit committee; or
- involving another member of the firm who is not, and has not been, on the engagement team to review the work done by the person, or advise as necessary.

Members are reminded that Rule 204.5 requires a member who has an interest that is precluded by this Rule to advise in writing a designated partner of the firm of the interest.

- 66** When a person on an engagement team knows that a close family member has a direct financial interest or a material indirect financial interest in the particular assurance client, or a related entity of the client in the case of an assurance client that is an audit or review client, a self-interest threat may exist. In evaluating the significance of any such threat, consideration

should be given to the nature of the relationship between the person on the engagement team and the close family member and the materiality of the financial interest. Once the significance of the threat has been evaluated, safeguards should be applied. Such safeguards might include:

- the close family member disposing of all or a sufficient portion of the financial interest at the earliest practical date;
- discussing the matter with the audit committee;
- involving another member of the firm who is not, and never was, on the engagement team to review the work done by the particular person on the engagement team or advise as necessary; or
- removing the person from the engagement team.

67 Consideration should be given to whether a self-interest threat may exist because of the financial interests of individuals other than those on the engagement team and their immediate and close family. Such individuals would include:

- a member of the firm who provides a non-assurance service to the assurance client;
- a member of the firm who has a close personal relationship with a person on the engagement team;
- a spouse or dependant of an immediate or close family member of a person on the engagement team; and
- an individual for whom a member of the engagement team holds power of attorney

Whether the interests held by such individuals may create a self-interest threat will depend upon factors such as:

- the firm's organizational, operating and reporting structure;
- the nature of the relationship between the individual and the person on the engagement team; and
- in the case of a power of attorney, the degree of decision making power granted by the power of attorney

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level. Such safeguards might include:

- where appropriate, policies to prohibit such individuals from holding such interests;
- discussing the matter with the audit committee; or
- involving another member of the firm who is not, and never was, on the engagement team to review the work done by the particular individual or advise as necessary.

68 Subject to Rule 204.4(7) relating to an audit or review engagement, the specific prohibitions of Rule 204.4 do not preclude a firm from accepting an assurance engagement with an entity if one or more partners of the firm who do not participate on the engagement team, and who do not practise in the same office as the lead engagement partner, have a financial interest in the entity. However, Rule 204.1 requires the firm to be independent in fact and appearance and requires the firm to identify threats to independence arising from such circumstances, evaluate the

significance of the threats and, if they are other than clearly insignificant, apply safeguards to reduce the threats to an acceptable level. If adequate safeguards are not available the firm should not accept the engagement.

69 An inadvertent breach of the principles in this Council Interpretation as they relate to a financial interest in an assurance client, or an related entity of the client in the case of an assurance client that is an audit or review client, would not impair the independence of the member of the firm or the firm when:

- the firm has established policies and procedures that require a network firm and all members of the firm to report promptly any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;
- the firm promptly notifies the network firm or the member of the firm that the financial interest should be disposed of; and
- the disposal occurs at the earliest practical date after identification of the issue, but no later than 30 days after the person has both the knowledge of the financial interest and the right or ability to dispose of it, or the person is removed from the engagement team.

70 When an inadvertent breach of the principles relating to a financial interest in an assurance client has occurred, the firm should consider whether, and if so which, safeguards should be applied. Such safeguards might include:

- involving another member of the firm who is not, and has not been, on the engagement team to review the work done by the particular member involved in the breach; or
- excluding the particular person from any substantive decision-making concerning the assurance engagement.

Members are reminded that Rule 204.5 requires a member who has an interest that is precluded by this Rule to advise in writing a designated partner of the firm of the interest. Inadvertent breaches are also discussed in paragraph 35 of this Council Interpretation.

Audit or review clients

71 Rule 204.4(2) provides that a member or firm may not perform an audit or review engagement for an entity if the member, firm or a network firm has a direct financial interest or a material indirect financial interest in the entity or in a related entity.

72 Rule 204.4(3) provides that a member or firm may not perform an audit or review engagement for an entity if a pension or other retirement plan of the firm or a network firm has a direct financial interest or a material indirect financial interest in the entity or in a related entity.

73 Rule 204.4(4) provides that a partner of a firm who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client of the firm, or a related entity of the client, may not practise in the same office as the lead engagement partner for the client.

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- 74** The office in which the lead engagement partner practises in connection with an audit or review engagement is not necessarily the office to which that partner is ordinarily assigned. Accordingly, for the purposes of Rule 204.4 (4) and this Council Interpretation, when the lead engagement partner is located in a different office from others on the engagement team, professional judgment should be exercised to determine in which office the partner practises in connection with the audit or review engagement.
- 75** Rule 204.4(5) provides that a partner or managerial employee of a firm who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client of the firm, or in a related entity of the client, may not provide a non-assurance service to the client, unless the non-assurance service is clearly insignificant.
- 76** Subject to Rule 204.4(7), a financial interest in an audit or review client, or a related entity of the client, that is held by an immediate family member of:
- a partner located in the office in which the lead engagement partner practises in connection with the audit or review engagement; or
 - a member of the firm who provides a non-assurance service to the client;
- would not create an unacceptable threat to independence provided the financial interest is received as a result of the immediate family member's employment rights (e.g., pension rights or share options) and, where appropriate, safeguards are applied to reduce any threat to independence to an acceptable level.
- 77** A self-interest threat may exist if the firm, or the network firm, or a person on the engagement team has a financial interest in a particular entity, and an audit or review client or a director, officer or controlling owner thereof also has a financial interest in that entity. Independence is not impaired with respect to the audit or review client if the respective financial interests of the firm, the network firm, or person on the engagement team, and the client or director, officer or controlling owner thereof are immaterial and the client cannot exercise significant influence over the entity.
- 78** Rule 204.4(6) provides that a member or firm may not perform an audit or review engagement for a client if the firm or a network firm has a financial interest in another entity, and the member or firm knows that the client or a director, officer or controlling owner of the client also has a financial interest in the other entity, unless the respective financial interests referred to are immaterial and the client cannot exercise significant influence over the other entity. In addition, a member or student may not participate on the engagement team for an audit or review client if that person has a financial interest in another entity and knows that the client or a director, officer or controlling owner of the client also has a financial interest in the entity, unless the respective financial interests referred to are immaterial and the client cannot exercise significant influence over the entity.

- 79** Rule 204.4(7) provides that a member or a firm may not perform an audit or review engagement for an entity if a partner or a professional employee of the firm owns, or such person's immediate family owns, more than 0.1% of the securities of the entity or controls the entity by means other than the ownership of the majority of the entity's common shares. The rule further provides that such interest may not be held in a related entity of the entity.
- 80** Rule 204.4(8) provides that a member or student may not participate on the engagement team of an audit or review client if such person knows that his or her close family owns more than 0.1% of the securities of the client, or a related entity of the client, or controls the client, or related entity of the client, by means other than the ownership of the majority of the entity's common shares. Rule 204.4(8) only applies when the person has knowledge of the securities held by his or her close family member. The rule does not put an onus on the person to determine which, if any, securities his or her close family members hold.

Assurance clients that are not audit or review clients

- 81** Rule 204.4(9) provides that a firm may not have a direct financial interest or a material indirect financial interest in an assurance client that is not an audit or review client. It also provides that a firm may not have a material financial interest in an entity that has a controlling interest in an assurance client that is not an audit or review client. The rule does not extend to related entities of the client.
- 82** With respect to a restricted-use report for an assurance engagement that is not an audit or review engagement, members are referred to the provisions in paragraph 28 of this Council Interpretation.

B. LOANS AND GUARANTEES

- 83** Rule 204.4(10) provides that a firm may not have a loan from or have a loan guaranteed by an assurance client except where the client is a bank or similar financial institution and the loan or guarantee is immaterial to the firm and the client and the loan or guarantee is made under normal commercial terms and conditions and is in good standing. The rule further provides that a firm may not make a loan to an assurance client that is not a bank or similar financial institution nor guarantee a loan of an assurance client.
- 84** Rule 204.4(11) provides that a firm may not accept a loan from, or have a loan guaranteed by an officer or director of an assurance client, or a shareholder of the client who owns more than 10% its equity securities. In addition, a firm shall not make a loan to, or guarantee a loan of, such a person.
- 85** Rule 204.4(12) provides that a member or student may not participate on the engagement team for an assurance client of the firm if:
- (a) the member or student accepts a loan from, or has a loan

- guaranteed by, the client, unless the client is a bank or similar financial institution and the loan or guarantee is made under normal commercial terms and conditions and the loan is in good standing;
- (b) the member or student accepts a loan from, or has a loan guaranteed by, an officer or director of the client, or a shareholder of the client who owns more than 10% of its equity securities; or
 - (c) the member or student has made a loan to, or guaranteed the borrowings of the client that is not a bank or similar financial institution, an officer or director of the client, or a shareholder of the client who owns more than 10% its equity securities.
- 86** A loan from, or a loan guaranteed by, from an assurance client that is a bank or a similar financial institution to a person on the engagement team or his or her immediate family member would not create a threat to independence provided the loan or guarantee is made under normal commercial terms and conditions and is in good standing. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.
- 87** Similarly, deposits or brokerage accounts of a firm or a person on the engagement team with an assurance client that is a bank, broker or similar financial institution would not create a threat to independence provided the deposit or brokerage account was held under normal commercial terms and conditions.
- 88** Rules 204.4 (10) and (11) relate to loans and guarantees between a firm and an assurance client. In the case of an assurance client that is an audit or review client, the provisions of Rules 204.4 (10) and (11) also apply network firms. In the case of an assurance client that is an audit or review client the provisions of Rule 204.4(10), (11) and (12) should be read as applying also to related entities of the client.

C. CLOSE BUSINESS RELATIONSHIPS

- 89** A close business relationship between a firm, a network firm or a person on the engagement team and the assurance client or its management, involving a common commercial or financial interest may create a self-interest or an intimidation threat. The following are examples of such relationships:
- (a) having a material financial interest in a joint venture with the client or a controlling owner, director, officer or other individual who performs senior management functions for that client;
 - (b) 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; and
 - (c) arrangements under which either the firm or the client acts as a distributor or marketer of the other's products or services.
- A close business relationship does not include the relationship created by the professional engagement between the client and the member, the firm, or the network firm as the case may be.

- 90** Rule 204.4(13) provides that a firm or a network firm may not have a close business relationship with an audit or review client or its management unless that relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm or network firm and the client or its management. In the case of an assurance client that is not an audit or review client, a firm may not have a close business relationship with the client or its management unless that relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm and the client or its management, as the case may be.
- 91** Rule 204.4(13) also provides that a member or student who has a close business relationship with an assurance client (whether audit, review or other) or its management may not be on the engagement team for the client unless that relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the member or student and the client or its management.
- 92** In the case of an audit or review client, a business relationship involving an interest held by a firm, a network firm or a person on the engagement team or any of that person's immediate family in a closely held entity in which the client or a director or officer of the client, or any group thereof, also has an interest, does not create threats to independence provided:
- the relationship is clearly insignificant to the firm, the network firm and the client;
 - the interest held is immaterial to the investor, or group of investors; and
 - the interest does not give the investor, or group of investors, the ability to control the closely held entity.
- 93** The purchase of goods or services from an assurance client by a firm (and, in the case of an audit client, by a network firm) or a person on the engagement team will not generally create a threat to independence, provided the transaction is conducted in the normal course of the client's business and on an arm's length basis. However, such a transaction may be of a nature or magnitude such that it does create a self-interest threat. If the threat so created is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:
- reducing the magnitude of or eliminating the transaction;
 - removing the individual involved from the engagement team; or
 - discussing the issue with the audit committee.

D. FAMILY AND PERSONAL RELATIONSHIPS

- 94** Family and personal relationships between a person on an engagement team and a director, officer or certain employees, depending on their role, of the assurance client may create a self-interest, familiarity or intimidation

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threat. The significance of such a relationship will depend on a number of factors, including the person's responsibilities on the assurance engagement, the closeness of the relationship and the role of the family member or other individual within the assurance client. Consequently, there are many circumstances that involve a threat to independence that will require evaluation.

- 95** Rule 204.4(14) provides that a member or a student may not participate on the engagement team for an assurance client if such person's immediate family is a director or officer of the client or an employee of the client in a position to exert direct and significant influence over the subject matter of the engagement, or was in such a position during any period covered by the engagement.
- 96** When a close family member of a person on the engagement team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, a threat to independence may be created. The significance of the threat will depend on factors such as:
- the position the close family member holds with the client; and
 - the role of the particular person on the engagement team.
- The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level. Such safeguards might include:
- removing the particular person from the engagement team;
 - where possible, restructuring the engagement team's responsibilities so that the particular person does not deal with matters that are within the responsibility of the close family member; or
 - policies and procedures to empower staff to communicate, without fear of retribution, to senior levels within the firm any issue of independence and objectivity that may concern them.
- 97** A self-interest, familiarity or intimidation threat may exist when a director, officer or employee of an assurance client who is not an immediate or close family member of a person on the engagement team has a close relationship with a person on the engagement team, and is in a position to exert direct and significant influence over the subject matter of the assurance engagement. Those on the engagement team should identify such individuals, and evaluate the relationship and consult with others in the firm in accordance with its policies and procedures. The evaluation of the significance of any such threat and the availability of safeguards appropriate to eliminate it or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the client.
- 98** Consideration should be given to whether a self-interest, familiarity or intimidation threat exists because of a personal or family relationship between a member of the firm who is not part of the engagement team and a director, officer or employee of the assurance client who is in a position

to exert direct and significant influence over the subject matter of the assurance engagement. Members of the firm should identify and evaluate the relationship and consult with others in the firm in accordance with its policies and procedures. The evaluation of the significance of any threat and the availability of safeguards appropriate to eliminate it or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the member of the firm with the engagement team, the position held within the firm, and the role of the individual within the client.

99 An inadvertent breach of the principles in this Council Interpretation as they relate to family and personal relationships would not impair the independence of a member of the firm, or a firm, when:

- the firm has established policies and procedures that require all members of the firm to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create a threat to independence;
- either the responsibilities of the engagement team are restructured so that the person on the engagement team does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if that is not possible, the firm promptly removes that person from the engagement team; and
- additional care is given to reviewing the work of the particular person on the engagement team.

100 When an inadvertent breach of the principles in this Council Interpretation relating to family and personal relationships has occurred, the firm should consider whether, and if so which, safeguards should be applied. Such safeguards might include:

- involving another member of the firm who is not, and never was, on the engagement team to review the work done by the person on the engagement team; or
- excluding that person from any substantive decision-making concerning the assurance engagement.

Members are reminded that Rule 204.5 requires a member who has a relationship that is precluded by this Rule to advise in writing a designated partner of the firm of the interest. Inadvertent breaches are also discussed in paragraph 35 of this Council Interpretation.

Audit clients that are reporting issuers

101 Rule 204.4(15) provides that a member or a student may not participate on the engagement team for an audit client that is a reporting issuer if such person's close family is in an accounting role or a financial reporting oversight role at the client, or was in such a position during any period covered by the engagement.

E. EMPLOYMENT WITH AN ASSURANCE CLIENT

General provisions

102 The independence of a firm or a person on the engagement team may be threatened if a director, officer or employee of the assurance client in a position to exert influence over the subject matter of the assurance engagement has been on the engagement team or a partner of the firm. Such circumstances may create a self-interest, familiarity or intimidation threat, particularly when a significant connection remains between the individual and his or her former firm.

103 The significance of a threat so created will depend upon the following factors:

- the position the individual has taken at the client and whether the position involves direct or significant influence over the subject matter;
- the amount of any involvement the individual will have with the engagement team;
- the length of time since the individual was on the engagement team or with the firm; and
- the former position of the individual within the engagement team or firm.

The significance of such a threat should be evaluated and, if it is other than clearly insignificant, available safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:

- considering the appropriateness or necessity of modifying the plan for the assurance engagement;
- assigning an engagement team to the subsequent assurance engagement that is of sufficient seniority and experience in relation to the individual who has joined the assurance client;
- involving another member of the firm who is not, and never was, on the engagement team to review the work done or advise as necessary; or
- performing an additional quality control review of the assurance engagement by the firm.

In such cases, all of the following safeguards will be necessary to reduce the threat to an acceptable level:

- the particular individual is not entitled to any benefits or payments from the firm unless these are made in accordance with fixed predetermined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's independence; and
- the particular individual does not continue to participate or appear to participate in the firm's business or professional activities.

104 A self-interest threat exists when a person on the engagement team participates in the assurance engagement while knowing, or having reason to believe, that he or she will or may join the client. In all such cases the following safeguards should be applied:

- having firm policies and procedures that require those on the

engagement team to notify the firm when entering employment negotiations with the assurance client; and

- removing the person from the engagement team.

In addition, consideration should be given to performing an independent review of any significant judgments made by that person while performing the engagement.

Audit clients that are reporting issuers

- 105** Notwithstanding the general guidance in paragraphs 102 to 104 of this Council Interpretation, Rule 204.4(16) provides that a firm may not perform an audit engagement for a client that is a reporting issuer if a person who participated in an audit capacity in an audit of the financial statements of the client is employed in a financial reporting oversight role for the client within a period of one year after the date when the financial statements of the client were filed with the relevant securities regulator or stock exchange. An individual holding one of the following titles will generally be considered to be in a financial reporting oversight role: a member of the board of directors or similar management or governing body, president, chief executive officer, chief operating officer, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, and, depending upon the particular facts and circumstances, the general counsel.
- 106** The term “financial reporting oversight role” means a position in which a person may or does exercise influence over either the contents of the financial statements or anyone who prepares them. When the financial statements of the reporting issuer are consolidated, a financial reporting oversight role can extend to the reporting issuer and its subsidiaries. In determining whether an individual is in a financial reporting oversight role for the reporting issuer, consideration should be given to the position of the individual, the extent of the individual's involvement in the financial reporting process of the reporting issuer and the impact of the individual's role of the consolidated financial statements of the reporting issuer.
- 107** For the purposes of Rule 204.4(16), other than the lead engagement partner and the engagement quality control reviewer, the following persons are not considered to have participated in an audit capacity in an earlier audit:
- (a) a person who is employed by the reporting issuer due to an emergency or other unusual situation provided that the entity's audit committee has determined that the employment of such person is in the interest of the shareholders;
 - (b) a person who has provided ten or fewer hours of assurance services in the earlier audit;
 - (c) a person who recommended the compensation of, or who provided direct supervisory, management or oversight of, the lead engagement partner in connection with the performance of the earlier audit, including those at all successively senior levels above

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- the lead engagement partner through to the firm's chief executive;
and
(d) a person who provided quality control for the audit engagement.

- 108** An individual may have fully complied with Rule 204.4(16) in accepting employment with an entity, and subsequently thereto, the entity merged with or was acquired by another entity resulting in that individual having a financial reporting oversight role of a combined entity which is audited by the firm in which the individual was previously an employee or a partner. In such a circumstance, unless the employment offer was accepted in contemplation of the merger or acquisition, the individual or the entity could not be expected to know that the employment decision could result in a threat to independence. In all such cases the safeguard of informing the audit committee should be applied.
- 109** For the purposes of Rule 204.4(16) audit procedures are deemed to have commenced for the current audit engagement period on the day after the financial statements for the previous period are filed with the relevant securities regulator or stock exchange.

F. RECENT SERVICE WITH AN ASSURANCE CLIENT

- 110** A self-interest, self-review or familiarity threat may exist when a former officer, director or employee of an assurance client becomes a part of the engagement team for that client.
- 111** Rule 204.4(17) provides that a member or a student may not participate on the engagement team for an assurance client if such person served as an officer or director of the client or had been an employee thereof in a position to exert direct and significant influence over the subject matter of the engagement during the period covered by the assurance report.
- 112** If, prior to the period covered by an assurance report, a person on the engagement team served as an officer or on the board of directors of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, a self-interest, self-review or familiarity threat may exist. For example, such a threat will exist if a decision made or work performed by that individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the assurance engagement. The significance of the threat will depend upon factors such as:
- the position the individual held with the client;
 - the length of time since the individual left the client; and
 - the role of the individual on the engagement team.
- The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:
- involving another member of the firm who is not, and never was, on the engagement team to review the work of the particular person or advise as necessary; or

- discussing the issue with the audit committee.

G. SERVING AS AN OFFICER OR A MEMBER OF THE BOARD OF DIRECTORS OF AN ASSURANCE CLIENT

113 Rule 204.4(18) provides that a member of a firm may not serve as an officer or director for an assurance client. In the case of an audit or review client, this prohibition is extended to related entities of the client and members of network firms by Rule 204.4 (19). However, a partner or employee of a network firm may serve as company secretary for an audit or review client that is not a reporting issuer where permitted by local law, professional rules or practice, and the duties and functions undertaken are limited to those of a routine and formal administrative nature.

Company secretary

114 The position of company secretary has different implications in different jurisdictions. The duties of company secretary 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 degree of association with the entity and may create self-review and advocacy threats.

115 If a partner or employee of a network firm serves as company secretary for an audit or review client, the self-review and advocacy threats created would generally be so significant that safeguards are unlikely to be available to reduce the threats to an acceptable level. However, when the practice of acting as company secretary is specifically permitted under local law, professional rules or practice, the duties and functions undertaken should be limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns.

116 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters is generally not perceived to impair independence, provided client management makes all relevant decisions.

H. RELIGIOUS ORGANIZATIONS

117 A threat to independence is ordinarily not created when a person on the engagement team, or any of the person's immediate or close family, belongs to a religious organization that is an assurance client provided the person on the engagement team, or the immediate or close family member:

- (a) does not serve on the religious organization's governing body; and
- (b) does not have the right or responsibility to exercise significant influence over the financial or accounting policies of the religious

organization or any of its associates.

I. SOCIAL CLUBS

118 Notwithstanding Rules 204.1 to 204.4, a threat to independence is ordinarily not created when a person on the engagement team, or an immediate or close family member of the engagement team, holds qualifying shares in a social club, such as a golf club, curling club, co-operative or similar organization, where the shareholding is a prerequisite of club membership, provided:

- (a) the assets of the organization cannot by virtue of the organization's by-laws be distributed to the individual club members other than in circumstances of forced liquidation or expropriation, unless there is a written undertaking with the organization to forfeit entitlement to such distributed assets;
- (b) neither the person on the engagement team nor the immediate or close family member:
 - (i) serves on the governing body or as an officer of the organization;
 - (ii) has the right or responsibility to exercise significant influence over the financial or accounting policies of the organization or any of its associates; or
 - (iii) exercises any right derived from membership to vote at meetings of the organization; and
- (c) the club member cannot dispose of the membership for gain.

J. LONG ASSOCIATION OF SENIOR PERSONNEL WITH AN ASSURANCE CLIENT

119 The use of the same senior personnel on the engagement team on an assurance engagement over a long period of time may create a familiarity threat. The significance of such a threat will depend upon factors such as:

- the length of time that the particular individual has been on the engagement team;
- the role of that individual on the engagement team;
- the structure of the firm; and
- the nature of the assurance engagement including the complexity of the subject matter and degree of professional judgment needed.

The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:

- discussing the matter with the audit committee;
- replacing the senior personnel on the engagement team;
- involving an additional member of the firm who is not, and never was, on the engagement team to review the work done by the particular individual, or advise as necessary;
- the member or firm is subject to external practice inspection; or
- an independent internal quality review of the assurance work performed by a member of the firm who was not part of the

engagement team.

Audit clients that are reporting issuer

- 120** Rule 204.4(20)(a)(i) provides that a member may not continue as the lead engagement partner, or the engagement quality control reviewer, for an audit client that is a reporting issuer for more than seven years in total and shall not resume or assume either such role until five years have elapsed since the member ceased to be the lead engagement partner or the engagement quality control reviewer.
- 120A** Rule 204.4(20)(b)(i) provides that a member, who is a partner other than the lead engagement partner or the engagement quality control reviewer on the engagement team, providing, during the engagement period, more than ten hours of assurance services in connection with the annual financial statements or interim financial information of the reporting issuer or is a subsidiary engagement partner shall not provide such services for a period of more than seven years in total and shall not resume providing such services until two years have elapsed since the member ceased to provide such services.
- 120B** In the case a reporting issuer is a mutual fund, Rules 204.4(20)(a)(ii) and (b)(ii) extend the partner rotation requirements and restrictions described above to mutual funds with the same mutual fund complex, as defined.
- 120C** These provisions in Rule 204.4(20)(b) do not apply to those “specialty” and “technical” partners who consult with others on the engagement team regarding technical or industry-specific issues, transactions or events, including taxation matters. In addition, the provisions do not apply to those partners who, subsequent to the issuance of the audit report, provide quality control for the engagement. Such partners typically have a low level of involvement with senior management as well as a relatively low level responsibility for overall presentation in the financial statements.
- 121** The effect of Rule 204.4(20) is that if a member had been the lead engagement partner for an audit client that is a reporting issuer for five consecutive years and was the engagement quality control reviewer for the following year, the member could be the lead engagement partner or the engagement quality control reviewer for one further year. After serving in such a role for one further year, the member would have served in such roles for seven years and, therefore, would be subject to a five-year “time out” period before the member could resume the role of lead engagement partner or engagement quality control reviewer for the particular reporting issuer.
- 122** When an audit client becomes a reporting issuer, the length of time the lead engagement partner has served in that capacity should be considered in determining when the partner must be replaced on the engagement team. However, if the lead engagement partner has served in that capacity

for five or more fiscal years at the time the client becomes a reporting issuer, such person may continue in that capacity for two more fiscal years before being replaced as lead engagement partner.

K. AUDIT COMMITTEE PRIOR APPROVAL OF SERVICES TO A REPORTING ISSUER AUDIT CLIENT

- 123** Rule 204.4(21) provides that a member or firm may not provide a service to a reporting issuer, that is an audit client, or to a subsidiary thereof, unless the audit committee of the client pre-approves such service. The requirement applies to all audit and non-audit services. For the purpose of Rule 204.4(21) the audit committee recommendation to the entity's board of directors that the particular audit firm be the entity's auditor will be considered to be the approval of the audit service. Subject to paragraph 125, all non-audit services for the reporting issuer and its subsidiaries must be specifically pre-approved by the audit committee.
- 124** The audit committee may establish policies and procedures for pre-approval provided that they are detailed as to the particular services and designed to safeguard the independence of the member and the firm. For example, one or more audit committee members who are independent board directors may pre-approve the service provided decisions made by the designated audit committee members are reported to the full audit committee.
- 125** Notwithstanding Rule 204.4(21), audit committee pre-approval of services other than assurance services provided to an audit client that is a reporting issuer, or to a subsidiary of the client, is not required where all such services that have not been pre-approved:
- (a) do not represent more than five per cent of total revenues paid by the audit client to the member, the firm and network firms in the fiscal year in which the services are provided;
 - (b) were not recognized as non-audit services at the time of the engagement; and
 - (c) are promptly brought to the attention of the audit committee and the audit committee or one or more designated representatives approves the services prior to the completion of the audit.
- 126** For the purposes of Rule 204.4(21) audit services include all those services performed to discharge responsibilities to provide an opinion on the financial statements of the reporting issuer. For example, in connection with some audit engagements, a tax partner may be involved in reviewing the tax accrual of the client. Since it is a necessary part of the audit process, the activity constitutes an audit service. Similarly, complex accounting issues may require consultation with a national office technical partner to reach an audit judgement. That consultation, being a necessary part of the audit process, also constitutes an audit service, and as such will be considered to have been pre-approved by the audit committee whether or not the firm charges separately for it. These examples contrast with a

situation where a client is evaluating a proposed transaction and requests the member, the firm or a network firm to evaluate it and, after research and consultation, the member, firm or network firm provides an answer to the client and bills for those services. Such services would not be considered to be audit services and, therefore, will not be considered to have been pre-approved with the audit service.

L. PROVISION OF NON-ASSURANCE SERVICES TO AN ASSURANCE CLIENT

General provisions

- 127** Firms have traditionally provided to their assurance clients a range of other services that are consistent with their skills and expertise. The provision of a service not referred to in Rule 204.1 may, however, create a self-interest, self-review or advocacy threat to the independence of the member or firm. Consequently, before a firm accepts an engagement to provide a non-assurance service to an assurance client, it should evaluate the significance of any threat created by providing the service. When such a threat is other than clearly insignificant, the non-assurance engagement should be declined unless appropriate safeguards can be applied to eliminate the threat or threats or reduce them to an acceptable level.
- 128** Subject to any specific prohibition in these rules to the contrary, a firm or a member of a firm may provide a non-assurance service to an assurance client provided that any threats to independence have been reduced to an acceptable level by safeguards, such as:
- policies and procedures to prohibit members of the firm from making management decisions for the client, or assuming responsibility for such decisions;
 - discussing independence issues related to the provision of non-assurance services with the audit committee;
 - policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm;
 - involving another member of the firm who is not on the engagement team to advise on any impact of the non-assurance engagement on the independence of the persons on the engagement team and the firm;
 - involving a professional colleague from outside of the firm to provide assurance on a discrete aspect of the assurance engagement;
 - obtaining the client's acknowledgement of responsibility for the results of the work performed by the firm;
 - disclosing to the audit committee the nature of the engagement and extent of fees charged; or
 - arranging that the members of the firm providing the non-assurance

service do not participate on the engagement team.

- 129** Notwithstanding the foregoing, the provision of certain non-assurance services to an audit or review client may create a threat to independence so significant that no safeguard will eliminate the threat or reduce it to an acceptable level. However, the provision of such a service to a related entity or division or the provision of a service that relates to a discrete financial statement item of the audit client may be permissible if all threats to the firm's independence have been reduced to an acceptable level by:
- arranging for that related entity, division or discrete financial statement item to be audited by another firm that is not a network firm; or
 - arranging for another firm that is not a network firm to re-perform the non-assurance service.
- 130** Rule 204.4(22) provides that, during the engagement period, a member of a firm may not make management decisions or perform management functions for an assurance client. The Rule further provides that in the case of an audit or review client a member of the firm or a network firm shall not make management decisions or perform management functions for the client during either the engagement period or the period covered by the financial statements subject to audit or review. Rule 204.4(22) also provides that in the case of an audit client that is a reporting issuer, a member of the firm or a network firm shall not make management decisions or perform management functions for a related entity of the client. Activities that would constitute a management decision or function include
- (a) authorizing, approving, executing or consummating a transaction;
 - (b) having or exercising authority on behalf of the client;
 - (c) determining which recommendation of the member or the firm should be implemented; or
 - (d) reporting in a management role to those charged with governance of the client.
- 131** Notwithstanding Rule 204.4(22) the independence of a member or a firm would not be impaired by the provision of services to assess the effectiveness of the internal control of an assurance client and to recommend improvements in the design and implementation of internal control and risk management control. Obtaining an understanding of the client's internal control is required by generally accepted auditing standards. Members often become involved in diagnosing, assessing and recommending to management ways in which internal control can be improved or strengthened.
- 132** The lending of staff by a firm or network firm to an audit or review client may create a self-review threat when a person so loaned is in a position to influence the preparation of the client's financial statements. In practice, such assistance may be given but only on the understanding that client approval is obtained for the results of the service and that the person on loan will not be involved in:

- making management decisions for the client;
- approving or signing agreements or other similar client documents; or
- exercising discretionary authority to commit the client.

In such situations the circumstances should be carefully analyzed to identify any threat to independence created and to determine whether additional safeguards should be applied to reduce the threat to an acceptable level.

Audit clients that are reporting issuers

133 Rules 204.4(24) to (28) set out non-audit services that may not be provided during either the period covered by the financial statements subject to audit or during the engagement period to an audit client that is a reporting issuer unless it is reasonable to conclude that the results of any such service will not be subject to audit procedures during the audit of the client's financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of such services will be subject to audit procedures. Materiality is not an appropriate basis upon which to overcome this presumption. For example, determining whether a subsidiary, division or other unit of the consolidated entity is material is a matter of audit judgment. Therefore, the determination of whether to apply detailed audit procedures to a unit of a consolidated entity is, in itself, an audit procedure.

Preparation of accounting records and financial statements

General provisions

- 134** It is the responsibility of management to ensure that accounting records are kept and financial statements are prepared, although in discharging its responsibility management may request a member or firm to provide assistance.
- 135** Assisting an audit or review client in matters such as preparing accounting records or financial statements will create a self-review threat when the financial statements are subsequently audited or reviewed by the member or firm. The significance of any such threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level.
- 136** Rule 204.4(23) provides that a member, or a member of a firm or network firm, may not perform any of the following activities for an entity, including a reporting issuer, that is an audit or review client:
- (a) preparing, or changing a journal entry, determining or changing an account code, or a classification for a transaction or preparing or changing another accounting record without obtaining the approval of management of the entity;
 - (b) preparing or changing a source document or originating data in respect of any transaction undertaken or entered into by the entity.
- 137** A source document is an initial recording or original evidence of a

transaction. Examples of source documents are purchase orders, payroll time cards, customer orders, invoices, disbursement approvals, signed cheques and written contracts. Source documents are often followed by the creation of additional records and reports, such as trial balances, account reconciliations and aged account receivable listings, which do not constitute source documents or initial recordings. Source documents may also be preceded by documents containing calculations and advice, such as bonus calculations for tax purposes, ceiling test calculations in the oil and gas industry and sample wording for clauses in a contract that will be prepared by the client's lawyers. The creation of such additional records, reports and documents would not constitute the creation of source documents.

- 138** Notwithstanding Rules 204.4(23) and (24), the financial statement audit and review process involves extensive dialogue between persons on the engagement team and management of the audit or review client. During this process, management will often request and receive input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. The provision of technical assistance of this nature for an audit or review client is an appropriate method of promoting the fair presentation of the financial statements. The provision of such advice, per se, does not generally threaten the member's or the firm's independence. Other services that are usually a part of the audit or review process and that do not, under normal circumstances, threaten independence include:
- assisting a client in resolving account reconciliation problems;
 - analyzing and accumulating information for regulatory reporting;
 - assisting in the preparation of consolidated financial statements (including assisting in the translation of local statutory accounts to comply with group accounting policies and transition to a different reporting framework such as International Accounting Standards);
 - assisting the drafting of disclosure items;
 - proposing adjusting journal entries; and
 - providing assistance and advice in the preparation of local statutory accounts of subsidiary entities.
- 139** A self-review threat may exist when a member, firm or network firm assists in the preparation of subject matter other than financial statements and subsequently provides assurance thereon. For example, a self-review threat will exist if a member or firm develops and prepares prospective financial information and subsequently provides assurance on it. Consequently, a member or firm should evaluate the significance of any self-review threat created by the provision of such a service. If the threat is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level.

Audit or review clients that are not reporting issuers

140 Subject to Rule 204.4(23) a member, firm or network firm may provide an audit or review client that is not a reporting issuer with accounting and bookkeeping services provided that any resulting self-review threat so created is reduced to an acceptable level. Examples of such services include:

- recording transactions for which the client has determined or approved the appropriate account classification;
- posting transactions to the client's general ledger;
- preparing financial statements;
- drafting notes to the financial statements;
- posting journal entries to the trial balance;
- performing payroll services which do not involve having custody of client assets; and
- preparing tax receipts for charitable donations or tax information returns, such as T4 slips.

Client approval of journal entries

141 A member, firm or network firm may prepare journal entries for an audit or review client that is not a reporting issuer provided management approves and takes responsibility for such journal entries. In obtaining this approval, the member, firm or network firm may choose to obtain approval for each journal entry or, alternatively, to obtain approval following a thorough review of the completed financial statements with management. This approval may also be obtained through the management representation letter.

Evaluation of significance of threats

142 The significance of a threat created by providing accounting and bookkeeping services to an audit or review client that is not a reporting issuer should be evaluated. The significance of such a threat will depend upon factors such as:

- the degree of involvement of the member or firm;
- the complexity of the transactions to be accounted for; and
- the extent of professional judgment required in selecting the appropriate accounting treatment.

If the threat is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level. Such safeguards might include:

- making arrangements so that such services are not performed by a person on the engagement team;
 - requiring the client to create the source data for the accounting entries;
 - requiring the client to develop the underlying assumptions;
 - obtaining the views of another professional accountant;
 - arranging for another firm to review a significant accounting treatment;
- or

- discussing a significant accounting treatment with the Institute's practice advisory services.

Complex transactions

- 143** Preparing the journal entries for a complex transaction would likely create a self-review threat the significance of which could only be reduced to an acceptable level by applying safeguards that involve consultation with others, for example by:
- obtaining the views of another professional accountant;
 - arranging for another firm to review a significant accounting treatment; or
 - discussing the proposed accounting treatment with the Institute's practice advisory services.

Audit clients that are reporting issuers

- 144** Rule 204.4(24) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, a firm or a network firm, or a member of the firm or a network firm, may not provide bookkeeping or other services related to the accounting records or financial statements of an audit client that is a reporting issuer, or to a related entity, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the financial statements. Bookkeeping and other such services include:
- (a) maintaining or preparing the entity's, or a related entity's, accounting records;
 - (b) preparing the financial statements on which the audit report is provided or that form the basis of the financial statements on which the audit report is provided; and
 - (c) preparing or originating source data underlying the financial statements.

In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the bookkeeping or other services will be subject to audit procedures.

Valuation services

General provisions

- 145** A valuation service involves the making of assumptions with respect to future events and the application of certain methodologies and techniques, in order to compute or provide an opinion with respect to a specific value or range of values, for a business as a whole, an intangible or tangible asset or a liability.

Audit or review clients that are not listed entities

- 146** Performing a valuation service for an audit or review client that is not a reporting issuer will create a self-review threat when the valuation resulting from the service is incorporated into the client's financial statements. The

significance of such a threat should be evaluated. The significance will depend on factors such as:

- the materiality of the results of the valuation service;
- the extent of the client's knowledge, experience and ability to evaluate the issues concerned, and the extent of the client's involvement in determining and approving significant matters of judgment;
- the degree to which established methodologies and professional guidelines are applied when performing the particular valuation service;
- the degree of subjectivity inherent in the item concerned where the valuation involves standard or established methodologies;
- the reliability and extent of the underlying data;
- the degree of dependence on future events of a nature which could create significant volatility in the amounts involved; and
- the extent and clarity of the financial statement disclosures.

If the threat is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:

- involving an additional professional accountant who was not a member of the engagement team to review the valuation work or otherwise advise as necessary;
- confirming with the client its understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;
- obtaining the client's acknowledgement of responsibility for the results of the valuation work performed by the firm or network firm; or
- arranging that members of the firm or network firm providing such services do not participate on the engagement team.

147 Performing a valuation service for an audit or review client that is not a reporting issuer involving matters that are material to the entity's financial statements and involving a significant degree of subjectivity would likely create a self-review threat. The significance of such a threat could only be reduced to an acceptable level by applying safeguards that involve consultation with others, such as another professional accountant or valuation specialist.

148 When a member, firm or network firm performs a valuation service for an audit or review client for the purposes of making a filing with a taxation authority, computing an amount of tax due by the client, or tax planning, no significant threat to independence ordinarily exists because such valuations are generally subject to the safeguard of external review by the taxation authority.

149 Notwithstanding Rule 204.4(25), the independence of a member or a firm will not be impaired when:

- the firm's valuation specialist reviews the work of an audit or review client or a specialist employed by the client, provided the client or the client's specialist supplies the technical expertise that the client uses in determining the required amounts recorded in the financial

statements. In such circumstances there will be no self-review threat because a client's management or a third-party is the source of the financial information subject to audit; or

- the valuation service is provided for non-financial reporting purposes, for example, transfer pricing studies or other tax-only purposes.

150 When a member or firm performs a valuation that forms part of the subject matter of an assurance engagement that is not an audit or review engagement, the firm should consider whether there is a self-review threat. If such a threat exists, and it is other than clearly insignificant, safeguards should be applied to eliminate it or reduce it to an acceptable level.

Audit clients that are reporting issuers

151 Rule 204.4(25) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, a firm or a network firm, or a member of the firm or a network firm, may not provide a valuation service to an audit client that is a reporting issuer, or to a related entity, unless it is reasonable to conclude that the results of the service will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the valuation service will be subject to audit procedures.

Provision of actuarial services to a reporting issuer audit client

152 Rule 204.4(26) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, firm or network firm, or a member of the firm or a network firm, may not perform an actuarial service for an audit client that is a reporting issuer, or to a related entity, unless it is reasonable to conclude that the results of the service will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the actuarial service will be subject to audit procedures.

153 For the purposes of Rule 204.4(26), actuarial services include the determination of an amount to be recorded in the client's financial statements and related accounts, except for: services that involve assisting the client in understanding the methods, models, assumptions and inputs used in determining such amounts; and advising management on the appropriate actuarial methods and assumptions that will be used in the actuarial valuations. In addition, the firm may use its own actuary to assist in conducting the audit if the client's actuary or a third-party actuary provides management with its actuarial capabilities.

Provision of internal audit services to an audit or review client

General provisions

154 A self-review threat may exist when a member, firm or network firm

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provides internal audit services to an audit or review client. Such services may comprise an extension of the firm's audit service beyond the requirements of generally accepted auditing standards, assistance in the performance of the client's internal audit activities, or outsourcing of the activities. In evaluating any threat to independence, the nature of the service should be considered.

- 155** Services involving an extension of the procedures required to conduct an audit or review in accordance with the CICA Handbook – Assurance will not be considered to impair independence with respect to an audit or review client provided that a member of the firm or network firm does not act or appear to act in the capacity of the client's management.
- 156** During the course of an audit or review engagement the engagement team considers the client's internal control and, as a result, may make recommendations for its improvement. This is part of an audit or review engagement and is not considered to be an internal audit service
- 157** For the purposes of Rule 204.4 and this Council Interpretation, internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.
- 158** Safeguards that should be applied in all circumstances to reduce any threats created by performing internal audit services for an audit or review client to an acceptable level include ensuring that:
- the client is responsible for internal audit activities and acknowledges in writing, to the firm and the audit committee, its responsibility for establishing, maintaining and monitoring the system of internal controls;
 - the client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
 - the client or the audit committee approves the scope, risk and frequency of internal audit work;
 - the client is responsible for evaluating and determining which recommendations of the firm should be implemented;
 - the client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, for example, obtaining and acting on reports from the member, firm or network firm; and
 - the findings and recommendations resulting from the internal audit services performed by the member, firm or network firm are reported appropriately to the audit committee.
- 159** Consideration should also be given to whether the provision of internal audit services to an audit or review client should be provided only by a member or members of the firm not involved in the audit or review engagement and with different reporting lines within the firm.

- 160** Performing a significant portion of the audit or review client's internal audit activities may create a self-review threat and a member, firm or network firm should consider that possibility and proceed with caution before taking on such an activity.

Audit clients that are reporting issuers

- 161** Rule 204.4(27) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, firm or network firm, or a member of the firm or a network firm, may not provide an internal audit service to an audit client that is a reporting issuer, or to a related entity, that relates to the client's, or the related entity's, internal accounting controls, financial systems or financial statements, unless it is reasonable to conclude that the results of the service will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the internal audit service will be subject to audit procedures.
- 162** Rule 204.4(27) does not prohibit the member, firm or network firm from providing a nonrecurring service to evaluate a discrete item or program, if the service is not in substance the outsourcing of an internal audit function. For example, the member, firm or network firm, or a member of the firm of a network firm, may conduct a nonrecurring specified auditing procedures engagement related to the internal control of an audit client that is a reporting issuer.

Provision of IT system services to an audit or review client

General provisions

- 163** The provision of services by a member, firm or network firm to an audit or review client that involve the design or implementation of financial information technology systems that are, or will be, used to generate information forming part of the client's financial statements may create a self-review threat.

Audit or review clients that are not reporting issuers

- 164** The provision of services by a member, firm or network firm to an audit or review client that involve both the design and the implementation of such financial information technology systems would create a self-review threat that is likely to be too significant to allow the provision of such services to an audit or review client that is not a reporting issuer, unless appropriate safeguards are put in place ensuring that:
- the client acknowledges in writing to the firm and the audit committee its responsibility for establishing and monitoring a system of internal controls;
 - the client designates a competent employee, preferably within senior management, with the responsibility to make all management

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- decisions with respect to the design and implementation of the hardware or software system;
- the client makes all management decisions with respect to the design and implementation process;
 - the client evaluates the adequacy and results of the design and implementation of the system; and
 - the client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.
- 165** Consideration should also be given to whether such services should be provided only by members of the firm who are not part of the engagement team with different reporting lines within the firm.
- 166** The provision of services by a member, firm or network firm to an audit or review client that involve either the design or the implementation of financial information technology systems that are used to generate information forming part of the client's financial statements may also create a self-review threat. The significance of any threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to eliminate it or reduce it to an acceptable level.
- 167** The provision of services to an audit or review client by a member, firm or network firm in connection with the assessment, design and implementation of internal accounting controls and risk management controls is not considered to create a threat to independence provided that members of the firm or network firm do not perform management functions for the client.
- 168** Recommending or installing pre-packaged financial information technology software for an audit or review client that is not a reporting issuer generally will not create a threat to independence.

Audit clients that are reporting issuers

- 169** Rule 204.4(28) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, a firm or network firm, or a member of the firm or a network firm, may not design or implement a financial information system for an audit client that is a reporting issuer, or for a related entity, unless it is reasonable to conclude that the results of such service will not be subject to audit procedures during an audit of the client's financial statements. Such services involve:
- (a) directly or indirectly operating, or supervising the operation of, the entity's, or a related entity's, information system;
 - (b) designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the entity's, or a related entity's, financial statements or other financial information systems taken as a whole; or
 - (c) directly or indirectly managing the entity's, or a related entity's, local

area network.

- (d) In determining whether it is reasonable to conclude that the results of such service will not be subject to audit procedures, there is a rebuttable presumption that the results of the financial information systems design and implementation service will be subject to audit procedures.

170 Information will be considered to be significant if it is reasonably likely to be material to the financial statements. Since materiality determinations may not be complete before the financial statements are prepared, the audit client and the member or firm should evaluate the general nature of the information as well as system output during the period of the audit engagement.

- 171** Notwithstanding Rule 204.4(28), a member, a firm or a network firm may:
- design or implement a hardware or software system that is unrelated to the financial statements or accounting records of the reporting issuer, or a related entity;
 - as part of the audit, or another assurance engagement, evaluate and make recommendations to management on the internal control of a system as it is being designed, implemented or operated; or
 - make recommendations on internal control matters to management or other service provider in conjunction with the design and installation of a system by another service provider.

Provision of litigation support or expert services to an audit or review client

General provisions

172 Litigation support services include such activities as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a legal dispute or litigation.

173 A self-review threat may exist when a member, firm or network firm provides to an audit or review client litigation support services that include the estimation of the possible outcome of a dispute or litigation and thereby affects the amounts or disclosures to be reflected in the client's financial statements. The significance of any such threat will depend upon factors such as:

- the nature of the engagement;
- the materiality of the amounts involved; and
- the degree of subjectivity inherent in the matter concerned.

The member or firm should evaluate the significance of any threat so created and, if it is other than clearly insignificant, safeguards should be applied to eliminate it or reduce it to an acceptable level. Such safeguards might include:

- policies and procedures to prohibit individuals who assist the client

from making management decisions on the client's behalf;

- using a member of the firm who is not part of the engagement team to perform the litigation support service; or
- the involvement of others, such as independent specialists.

If adequate safeguards are not available to reduce a threat to an acceptable level the member, firm or network firm should decline the engagement.

Provision of expert services to a reporting issuer audit client

174 Rule 204.4(29) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, a firm or a network firm, or a member of the firm or a network firm, may not provide an expert opinion or other expert service for an audit client that is a reporting issuer, or for a related entity, or for a legal representative thereof. This rule prohibits a member, firm or network firm, or a member of the firm or a network firm, from performing an engagement to provide specialized knowledge, experience or expertise to advocate or support the audit client's positions, or the positions of a related entity, in an adversarial or similar proceeding such as an investigation, a litigation matter, or a legislative or administrative tribunal.

175 Notwithstanding Rule 204.4(29), a member, a firm or a network firm, or a member of the firm or a network firm, may be engaged by an audit committee of an audit client that is a reporting issuer to assist it in fulfilling its responsibilities to conduct its own investigation of a potential accounting impropriety. For example, if the audit committee is concerned about the accuracy of the inventory records at a subsidiary, it may engage the member, the firm or the network firm, or a member of the firm or a network firm, to conduct a thorough inspection and analysis of these records, the physical inventory at the subsidiary and related matters without impairing independence. This type of engagement may include forensic or other fact-finding work that results in the issuance of a report to the audit client. It will generally require performing procedures that are consistent with, but more detailed or more comprehensive than, those required by generally accepted auditing standards.

176 In an investigation or proceeding for an audit client that is a reporting issuer, or for a related entity, the member, firm or network firm, or a member of the firm or a network firm, may provide an account or testimony with respect to a matter of fact, such as describing the work performed by the member's firm or the predecessor auditor. The member, firm or network firm, or a member of the firm or network firm, may explain the positions taken or the conclusions reached during the performance of any service provided for the reporting issuer audit client.

Legal services to an audit or review client

General provisions

177 A legal service refers to any service that may only be provided by a person

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licensed, admitted, or otherwise qualified to practise law in the jurisdiction in which the service is provided. Legal services encompass a wide and varied range of corporate and commercial services, including contract support, conduct of litigation, mergers and acquisition advice and support and the provision of assistance to client's internal legal departments. For the purposes of Rule 204.4 legal services do not include those taxation services that may be provided by a person who is not admitted to the practice of law in the jurisdiction.

- 178** Threats to independence created by the provision of legal services to an audit or review client should be considered based on:
- the nature of the service to be provided (for example, advocacy as opposed to other legal services);
 - whether the service provider is separate from the engagement team; and
 - the materiality of any pertinent matter in relation to the client's financial statements.
- 179** The provision of a legal service which involves matters that would not be expected to have a material effect on the client's financial statements is not considered to create an unacceptable threat to independence with respect to that client.
- 180** The provision of legal services to support an audit or review client in the execution of a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create a self-review threat. The significance of any such threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:
- using a member of the firm who is not on the engagement team to provide the service;
 - ensuring the member of the firm does not make a management decision for the client;
 - ensuring the client makes the ultimate decision in relation to the advice provided; and
 - ensuring the service involves the execution of what has been decided by the client in relation to the transaction.
- 181** Notwithstanding the foregoing, Rule 204.4(30) provides that a member, firm or network firm may not, during either the period covered by the financial statements subject to audit or review or the engagement period, provide a legal service to an audit or review client in the resolution of a dispute or litigation in circumstances where the matters in dispute or subject to litigation are material in relation to the client's financial statements.
- 182** The provision of a legal service to assist an audit or review client in the resolution of a dispute or litigation may create an advocacy or self-review

threat. When a member, firm or network firm is asked to act in an advocacy role for the client in the resolution of a dispute or litigation in circumstances where the amounts involved are not material to the client's financial statements, the significance of any resulting threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to eliminate it or reduce it to an acceptable level. Such safeguards might include:

- policies and procedures to prohibit members of the firm or network firm from assisting the client in making management decisions on behalf of the client; or
- using members of the firm who are not on the engagement team to perform the particular legal service.

Audit clients that are reporting issuers

183 Rule 204.4(31) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, firm or network firm, or a member of the firm or a network firm, may not provide a legal service to an audit client that is a reporting issuer, or to a related entity.

Human resource services for an assurance client

General provisions

184 The recruitment of managers, executives or directors for an assurance client, where the person recruited will be in a position to affect the subject matter of the assurance engagement, may create a current or future self-interest, familiarity or intimidation threat. The significance of such a threat will depend upon factors such as:

- the role of the person to be recruited; and
- the nature of the assistance sought.

The significance of any such threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. In all cases, the firm should not make management decisions and the client should make the hiring decision.

Audit clients that are reporting issuers

185 Rule 204.4(32) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a member, firm or network firm, or a member of the firm or a network firm, may not provide any of the following services to an audit client that is a reporting issuer, or to a related entity:

- (a) searching for or seeking out prospective candidates for management, executive, or director positions;
- (b) engaging in psychological testing, or other formal testing or evaluation programs;
- (c) undertaking reference checks of prospective candidates for an executive or director position;
- (d) acting as a negotiator or mediator on the entity's behalf with respect

to employees or future employees with respect to any condition of employment, including position, status or title, compensation, or fringe benefits; or

- (e) recommending or advising the entity to hire a specific candidate for a specific job.

Notwithstanding Rule 204.4(32) a member, firm or network firm, or a member of the firm or a network firm may, upon request of the audit client, interview candidates and advise the client on the candidate's competence for financial accounting, administrative or control positions.

Corporate finance and similar activities

186 Rule 204.4(33) provides that, during the engagement period, a member or firm, or a member of the firm, may not provide any of the following services to an assurance client:

- (a) promoting, dealing in or underwriting the client's securities;
- (b) making investment decisions on behalf of the client or otherwise having discretionary authority over the client's investments;
- (c) executing a transaction to buy or sell the client's investments; or
- (d) having custody of assets of the client, including taking temporary possession of securities purchased by the client.

The Rule further provides that in the case of an assurance client that is an audit or review client, during either the period covered by the financial statements subject to audit or the engagement period, a network firm or a member of a network firm shall not provide such services to the client. It also provides that in the case of an audit client that is a reporting issuer, the firm, a network firm, or a member of the firm or network firm shall not provide such services to a related entity.

187 Other corporate finance services may create an advocacy or self-review threat that may be reduced to an acceptable level by the application of safeguards. Examples of such services include: assisting a client in developing corporate strategies; assisting a client in obtaining bank financing by explaining the financial statements to the bank; assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria; and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level. Such safeguards might include:

- policies and procedures to prohibit members of the firm from making management decisions on behalf of the client; and
- using members of the firm not part of the engagement team to provide the services.

Provision of taxation services to an audit or review client

188 Members and firms have historically provided a broad range of tax services to their audit and review clients, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes.

Taxation services are seen to be unique among non-assurance services for several reasons. Detailed tax laws must be consistently applied, and the taxation authorities have discretion to audit any tax filing. Accordingly such engagements are generally not seen to create threats to independence that are not adequately offset by available safeguards.

- 189** There are, however, some taxation services which, when provided to an audit or review client, may impair the independence of the member or firm. An example is when a member, a firm or a network firm represents an audit or review client before a court having jurisdiction to deal with tax matters.

M. FEES AND PRICING

Fees — Relative size

- 190** When the total fees generated from an assurance client represent a significant proportion a member's or firm's total fees, the financial dependence on that client, or group of clients of which it is a part, including the possible concern about losing the client, may create a self-interest threat. The significance of the threat will depend upon factors such as:

- the structure of the firm; and
- whether the member or firm is well established in practice.

The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:

- taking steps to reduce the dependency on the client;
- discussing the extent and nature of fees with the audit committee;
- having firm policies and procedures to monitor and implement quality control of assurance engagements;
- involving another member of the firm who is not on the engagement team to review the work done or advise as necessary;
- arranging for external quality control reviews; and
- consulting a third party, such as a professional regulatory body or a professional colleague who is not a member of the firm.

Fees — Overdue

- 191** A self-interest threat may exist if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant portion is not paid before the issue of the assurance report for the following year. Generally the payment of such fees should be required before that report is issued. The following safeguards may be applicable:

- discussing the level of outstanding fees with the audit committee; and
- involving another member of the firm who is not part of the engagement team, or a professional colleague who is not a member of the firm, to provide advice or review the work performed.

Members are cautioned that the overdue fees might create the same threats to independence as a loan to the client. Therefore, members should consider whether, because of the significance of such threats, it is

appropriate for the firm to retain the client.

Pricing

192 Rule 204.4(34) provides that a member or firm may not provide an assurance service at a fee level that the member or firm knows is significantly lower than that charged by the predecessor member or firm, or contained in other proposals for the engagement, unless the member or firm can demonstrate that the engagement will be performed properly by qualified staff and in accordance with all applicable professional standards.

N. COMPENSATION OF AUDIT PARTNERS

193 Compensating an audit partner for selling non-assurance services to an audit or review client of that partner may create a self-interest threat. The significance of the threat will depend on such factors as:

- the structure of the firm;
- the size of the fee for the assurance service; and
- the size of the fee for the non-assurance service.

The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:

- discussing the nature and extent of the fees with the audit committee;
- having firm policies and procedures to monitor and implement quality control of assurance engagements;
- involving another member of the firm who is not a member of the engagement team to review the work done or advise as necessary; and
- being subject to external practice inspection.

Audit clients that are reporting issuers

194 Rule 204.4(35) provides that a member who is an audit partner of a firm with five or more audit clients that are reporting issuers or ten or more partners, may not earn or receive compensation based on the partner procuring engagements from a reporting issuer audit client of the partner to provide any product or service other than an assurance service. Rule 204.4(35) does not apply to partners who are not “audit partners” as defined.

195 The prohibition from compensating an audit partner for procuring or selling non-assurance services is not extended to compensation for performing such services and does not preclude an audit partner from sharing in the profits of the audit practice and the profits of the firm. An audit partner’s evaluation may take into account a number of factors directly or indirectly related to selling services to an audit client that is a reporting issuer. For example, an audit partner may be evaluated on the complexity of his or her engagements, the overall management of the relationship with the client including the provision of non-audit services, and the attainment of specific sales goals.

O. CONTINGENT FEES

196 Members and firms are referred to Rule 215 and the related Council Interpretation.

P. GIFTS AND HOSPITALITY

197 Rule 204.4(36) provides that a firm, or a member or a student who is part of an engagement team for an assurance client, may not accept a gift or hospitality, including a product or service discount, from the client unless the gift or hospitality is clearly insignificant to the firm or person as the case may be.

Q. ACTUAL OR THREATENED LITIGATION

198 Actual, threatened or prospective litigation between a firm or a member of an engagement team and the assurance client or a shareholder or creditor of the client may create a self-interest or intimidation threat. The relationship between client management and persons on the engagement team should be characterized by complete candour and full disclosure regarding all aspects of the client's business operations and all matters relevant to the client's financial statements. The firm and the client's management may be placed in adversarial positions by actual, threatened or prospective litigation, which could impair complete candour and full disclosure, and in this, or other ways, the firm may face a self-interest or intimidation threat. The significance of the threat will depend upon such factors as:

- the materiality of the litigation;
- the nature of the assurance engagement;
- the stage of the litigation; and
- whether the litigation relates to a prior assurance engagement.

The significance of the threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Such safeguards might include:

- disclosing to the audit committee the extent and nature of the litigation;
- removing from the engagement team any person involved in the litigation; and
- involving an additional member of the firm who is not part of the engagement team to review the work done or advise as necessary.

If such safeguards do not reduce the threat to an acceptable level, the only appropriate action is for the member or firm to withdraw from, or refuse to accept, the assurance engagement.

199 Members are cautioned that actual litigation often results in a conflict of interest between the client and the member or firm which will preclude the member or firm from continuing to provide professional services to the client. Threatened or prospective litigation can have the same result. When faced with threatened, prospective or actual litigation, members and firms should refer to Rule 210 and the related Council Interpretation,

and consult with their legal counsel, to determine whether they can continue to provide professional services to the client and, if so, whether there are particular arrangements which should be made with the client.

CI 204.7 - INSOLVENCY ENGAGEMENTS

Member acting as trustee under the Bankruptcy and Insolvency Act, or as liquidator, receiver or receiver/manager.

Rule 204.7

A member or firm who engages or participates in an engagement to act in any aspect of insolvency practice, including as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager, shall be and remain independent such that the member, firm and members of the firm shall be and shall remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member, firm or member of the firm.

- 1** Rule 204.7 deals with objectivity and independence in insolvency practice. This interpretation sets out how, in Council's opinion, a reasonable observer might be expected to view certain situations related to insolvency practice.
 - 2** A firm and a member, or member of the firm, and their respective immediate families, should not acquire directly or indirectly in any manner whatsoever any assets under the administration of the member or firm, provided that any of the foregoing may acquire assets from a retail operation under administration of the member or firm where those assets are available to the general public for sale and that no special treatment or preference over and above that granted to the public is offered to or accepted by the firm, the member or the member of the firm and their respective immediate families.
 - 3** A member or firm should avoid being placed in a position of conflict of interest and, in keeping with this principle, should not accept any appointment:
 - (a) which is prohibited by law, or
 - (b) as a receiver, receiver-manager, agent for a secured creditor, or liquidator, or any appointment under the Bankruptcy and Insolvency Act, except as an inspector, in respect of any debtor, where the member or firm is, or at any time during the two preceding years was:
 - (i) a director or officer of the debtor;
 - (ii) an employer or employee of the debtor or of a director or officer of the debtor;
 - (iii) related to the debtor or to any director or officer of the debtor; or
 - (iv) the auditor, accountant or legal council of the debtor.
- For purposes of this Interpretation the term "accountant" means any

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member or firm who has performed a review engagement with respect to the financial statements of the debtor in accordance with the *CICA Handbook – Assurance*.

- 4 Where a conflict of interest may exist, or may appear to exist, a member or a firm should make full disclosure to, and obtain the written consent of, all interested parties and, in keeping with this principle, should not accept any appointment:
- (a) as trustee under the *Bankruptcy and Insolvency Act* where the member or firm has already accepted an appointment as receiver, receiver-manager, agent of a secured creditor, liquidator, trustee under a trust indenture issued by the bankrupt corporation or by any corporation related to the bankrupt corporation, or on behalf of any person related to the bankrupt without having first made disclosure of such prior appointment. The member or firm should inform the creditors of the bankrupt of the prior appointment as soon as reasonably possible;
 - (b) as receiver, receiver-manager, agent for a secured creditor or on behalf of any person related to the bankrupt where the member or firm has already accepted an appointment as trustee under the *Bankruptcy and Insolvency Act* without first obtaining the permission of the inspectors of the bankrupt estate. Where inspectors have not been appointed at the time that the second appointment is to be taken, the member should obtain the approval of the creditors of the bankrupt of having taken the second appointment as soon as reasonably possible; and if the second appointment is taken before obtaining the approval of the creditors, it should be taken subject to their approval;
 - (c) as receiver, receiver-manager, agent for a secured creditor or trustee under the *Bankruptcy and Insolvency Act* in respect of any corporation where the member or firm is, or at any time during the two-year period commencing at the date of the last audit report or the last review engagement report was, the trustee (or related to such trustee) under a trust indenture issued by such corporation or by any corporation related to such corporation without first obtaining the permission of the creditors secured under such trust indenture. Upon the acceptance of any such appointment as trustee under the *Bankruptcy and Insolvency Act*, the member or firm should inform the creditors of the bankrupt corporation of the prior appointment as (or relationship to) the trustee under a trust indenture issued by the bankrupt corporation or by any corporation related to the bankrupt corporation as soon as reasonably possible;
 - (d) as receiver, receiver-manager, agent for a secured creditor, liquidator of an insolvent company under the Winding-Up Act, or trustee under the *Bankruptcy and Insolvency Act* in respect of any corporation where the member or firm is related to an officer or director of such corporation; or
 - (e) as receiver, receiver-manager, agent for a secured creditor, or trustee under the *Bankruptcy and Insolvency Act* in respect of any person or corporation where the member or firm is a creditor, or an officer or

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director of any corporation that is a creditor, of such person or corporation unless the relationship is sufficiently remote that the member or firm can act having independence in fact and appearance.

- 5 For purposes of paragraphs 3 and 4, persons are related to each other if they are defined as such under Section 4 of the *Bankruptcy and Insolvency Act*.
- 6 A member or firm engaged in insolvency practice should ensure there are no relationships with retired partners which may be seen to impair the member's independence. Refer to paragraph 29 of the interpretations in respect of Rules 204.1 to 204.6.

CI 204.8 – INDEPENDENCE - DISCLOSURE OF IMPAIRMENT OF INDEPENDENCE

Professional services, other than assurance or specified auditing procedures and insolvency engagements

Rule 204.8

A member or firm engaged in the practice of public accounting or any related business or practice, who provides a service not subject to the requirements of Rules 204.1 to 204.7, shall disclose any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair the member's or firm's independence such that the professional judgment or objectivity of the member, firm or member of the firm would appear to be impaired, and such disclosure shall be made in the member's or firm's written report or other written communication accompanying financial statements or financial or other information and the disclosure shall indicate the nature of the activity or relationship and the nature and extent of the interest.

- 1 Members and firms who provide a professional service which does not require the member or firm to be independent are required by Rule 204.8 to disclose any activity, interest or relationship which, in respect of the professional service, would be seen by a reasonable observer to impair the member's or firm's independence. Members and firms should refer to Rules 204.1 to 204.7 and the related Council Interpretations when determining whether they must be independent and would appear to be independent with respect to particular engagements.
- 2 Such disclosure is required whether or not any written report or other communication is provided and should indicate the nature of the activity, or relationship and the nature and extent of the interest. Any written communication concerning or accompanying financial statements or financial or other information must include such disclosure.

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- 3 Independence is not required for compilation engagements. Where the provider of the compilation service may be seen to be lacking independence, the disclosure requirement of Rule 204.8 applies.
- 4 For the purposes of Rule 204.8 the preparation of accounting records or journal entries in connection with a compilation engagement is not an activity that requires disclosure in the Notice to Reader unless such preparation involves complex transactions as contemplated by paragraph 143 of the Council Interpretations to Rules 204.1 to 204.6.
- 5 Tax return services may require disclosure in respect of some of the information filed with the return. If the return is simply the assembling and reporting of information provided by the taxpayer, then the member or firm involved has simply processed that information and disclosure should not be necessary.
- 6 Members and firms are cautioned that disclosure under Rule 204.8 does not relieve them from their obligation to comply with the rules of professional conduct and in particular Rules 201, 202, 205 and 206.

CI 204A - AUDIT APPOINTMENTS UNDER THE ONTARIO ELECTION FINANCES ACT

- 1 *Introduction: The Election Finances Act ("the Act")* requires the filing, with the Chief Election Officer, of certain financial statements of registered candidates, registered leadership contestants, registered constituency associations and registered political parties; these statements are to be reported on by an auditor licensed under the Public Accounting Act, 2004 (Ontario) or a firm of auditors whose partners are so licensed.
- 2 *Ineligibility provisions - statutory:* The Act (Section 40(3)) lists a number of persons who cannot act as auditor. Section 40(3) states:
 - (3) No returning officer, deputy returning officer or election clerk and no candidate, or leadership contestant, or chief financial officer of a candidate or leadership contestant, or chief financial officer of a registered party or constituency association shall act as the auditor for the candidate, leadership contestant, registered party or constituency association, but nothing in this subsection makes ineligible the partners or firm with which such a person is associated from acting as an auditor for a candidate or registered party or constituency association or leadership contestant.
- 3 *Council extension of ineligibility provisions:* Without wishing to extend the statutory prohibitions unduly, the Council considers that there are additional relationships to those spelled out in the Act which would impair, or appear to impair, an auditor's objectivity. This interpretation, therefore, sets out the Council's views on unacceptable relationships, in respect of audits under the Act, encompassing both those prohibited by the statute and those unacceptable professionally.

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- 4 The Council recognizes that too detailed a proscription, coupled with the widespread involvement of members, as citizens, in the political process, could make it almost impossible for the audit provisions of the Act to be given practical effect. Accordingly, this interpretation seeks to cover only the more obvious relationships, which the profession would consider unacceptable. Too narrow an interpretation could, in view of the many conceivable conflicts of interest, make it almost impossible for members to serve the community's needs.
- 5 *Definitions:* As used in this interpretation: "candidate", "leadership contestant", "constituency association", "registered party" and "campaign period" have the meanings given to them in Section 1(1) of the Act, and "candidate" includes "registered candidate", "leadership contestant" includes "registered leadership contestant", and "constituency association" includes "registered constituency association", as defined in Section 1(1) of the Act; "immediate family" has the meaning given to it in the definitions to Council Interpretation 204.
- 6 *Audit of a candidate:* The Council believes that a member would not be complying with the objectivity rule (Rule 204) if he or she were to act as auditor of a candidate if he or she is:
- (i) • a candidate, a leadership contestant, a returning officer, a deputy returning officer or an election clerk;
- the chief financial officer of a candidate, a leadership contestant, a constituency association or a registered party;
 - an officer of the constituency association or of the related registered party of the candidate;
 - a paid worker during a campaign period for any candidate, any constituency association or any registered party at the provincial level;
 - a volunteer worker during a campaign period for that candidate, or for the registered party of that candidate at the provincial level, where
- (a) he or she exercises any function of leadership or direction in that candidate's or that party's campaign organization, or
- (b) he or she carries on any significant function involving the raising, spending or custody of that candidate's or that registered party's campaign funds;
- OR IF
- (ii) a member of his or her immediate family, or his or her partner in a public accounting practice is:
- the candidate;
 - the returning officer for the constituency of the candidate;

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- the chief financial officer of that candidate, the constituency association of that candidate, or the related registered party of that candidate;
- an officer of the constituency association or the related registered party of that candidate;
- a paid worker during a campaign period for that candidate, the constituency association of that candidate, or the registered party of that candidate at the provincial level;
- a volunteer worker as described in (i) above.

For greater certainty the Council believes that where a member who is a partner in a firm holds any of the positions in (i) above with respect to the audit of a particular candidate, the firm of which that member is a partner may not act as auditor of that candidate. However, this problem would not prevent a firm from accepting the audit appointment for other candidates.

- 7** *Audit of a leadership contestant:* Any disabling relationship as described in paragraph 6 above, which would prohibit a member from acting as auditor for a candidate, would similarly prohibit his or her acting as auditor of a leadership contestant.
- 8** *Audit of a constituency association:* Any disabling relationship as described in paragraph 6 above, which would prohibit a member from acting as auditor for a candidate, would similarly prohibit his or her acting as auditor of that candidate's constituency association.
- 9** *Audit of a registered party:* Any disabling relationship as described in paragraph 6 above, which would prohibit a member from acting as auditor for any candidate or any constituency association, would similarly prohibit his or her acting as auditor of the registered party concerned.
- 10** *Firms:* A firm as well as an individual may, in certain circumstances, properly act as auditor in respect of audits under the Act. Council is of the view that a firm may act as auditor of a registered party, even if one of the partners has one of the disabling relationships described in paragraph 6(i) or 6(ii), provided:

(a) the partner with the disabling relationship is not a candidate, leadership contestant, chief financial officer or paid worker of that registered party, or a volunteer worker of that registered party where he or she exercises any function of leadership therein or works on any significant function involving the raising, spending or custody of campaign funds, and

(b) the member of the immediate family who creates the disabling relationship for that partner is not a chief financial officer, an officer, or a paid worker of that registered party, or a volunteer worker of that registered party exercising any function of leadership therein or works on any significant function involving the raising, spending or custody of

campaign funds, and

- (c) that any partner who carries the responsibility for the audit concerned does not himself or herself have a disabling relationship under paragraph 6(i) or 6(ii).

Council is of the view that a firm may not act as auditor of a *candidate, leadership contestant or constituency association*, if a partner of that firm is prevented from acting as auditor because he or she has one of the disabling relationships described in paragraph 6(i) or 6(ii).

- 11** *Conclusion:* Generally, members contemplating acting as auditors for registered parties, constituency associations, candidates or leadership contestants must be alert to any circumstances, not described in this interpretation, which may place them in the position of impairment of objectivity or where a strong appearance of impairment might be presented. This type of question tends to arise, for example, where a donation of cash or professional services is made. Members of the Institute, as citizens, have the same responsibility to be involved in the political process as other citizens; such involvement may include financial support of a registered party, constituency association, candidate, or leadership contestant by a member, or his or her immediate family or partner in a public accountancy practice. The Council believes that the making of a financial contribution, or the donation of professional services does not, of itself, necessarily create an impairment of objectivity, in these particular circumstances. Members should recognize, however, the need to apply judgment to the question of the amount of any such contribution and must be satisfied that any such contribution does not in fact impair their audit objectivity or strongly appear to impair it.

Questions considered by Council in drafting CI 204A

- 12** *Chief financial officer of a candidate or leadership contestant*
- (i) Can a firm accept an audit appointment from a candidate or leadership contestant if one of the partners is acting as the chief financial officer of that candidate or leadership contestant?
The answer is no.
- (ii) Suppose a staff member - not a partner - accepts the position of chief financial officer for a candidate or leadership contestant; can his or her firm act as auditor for that candidate or leadership contestant?
The firm is not prohibited by the statute from accepting such an audit appointment, nor does the Council interpretation prohibit such an appointment. However, it would clearly be wise for a firm to decline such an audit appointment to avoid the appearance of a conflict of interest.
- (iii) If a partner or a staff member acts as a chief financial officer for a

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candidate or leadership contestant, can the firm accept an audit appointment for another candidate or leadership contestant?

The answer is yes. This is the clear intention of Section 40(3) of the Election Finances Act. However, the firm would want to ensure that both sides were aware of the relationships that would exist to avoid embarrassment or misunderstandings. Also, the firm would be advised to ensure that the partner or staff member who is acting as a chief financial officer avoids any association with the audit work carried out by the firm on the returns of any other candidate(s) or leadership contestant(s).

- (iv) If a partner is the chief financial officer of a candidate, can the firm accept the audit appointment for an opposing candidate in the same constituency?

The answer is yes. However, the firm would want to ensure that both sides were aware of the relationships that would exist to avoid embarrassment or misunderstandings. Also, the firm would be advised to ensure that the partner who is acting as a chief financial officer avoids any association with the audit work carried out by the firm on the returns of other candidates.

13 *More than one audit in the same constituency*

If the firm has agreed to act as the auditor of a candidate, can the firm accept the audit appointment for an opposing candidate in the same constituency?

The answer is yes. However, the firm would want to ensure that both sides were aware of the relationships that would exist to avoid embarrassment or misunderstandings.

14 *Spouse involvement*

- (i) If the spouse of a member is an officer of the constituency association or the related registered party of a candidate, can the member or his or her firm accept an appointment as auditor of that candidate?

The answer is no, as the member and the firm have an association with a volunteer worker with significant leadership responsibilities.

- (ii) If the spouse of a member is acting as a deputy returning officer in one of the polls on election day, can the member or his or her firm accept an appointment as auditor of a candidate in that constituency?

There is no prohibition under the Council interpretation affecting the member or firm. However, it would be advisable if the member personally did not accept an audit appointment from any candidate in that constituency. Also, the firm would be advised to ensure that the partner whose spouse is so acting avoids any association with the audit work carried out by the firm with respect to the returns of

candidates in that constituency.

15 *Firm appointed auditor of a registered party*

If a firm has accepted the appointment as auditor of a registered party, can a partner of the firm act as:

- (a) an officer, including chief financial officer, of the registered party?
The answer is no.
- (b) an officer, including chief financial officer, of another registered party?
The answer is yes, but the possibility of misunderstanding or embarrassment is very high if both sides are not informed in advance of the proposed relationship.
- (c) an officer, including chief financial officer, of a constituency association?
Generally yes, but ensure that the position does not involve an ex officio position at the party level.
- (d) a chief financial officer of a candidate?
The answer is yes, but the partner concerned should avoid any association with the audit work.

CI 204B - CANADA ELECTIONS ACT

Introduction

- 1 The Canada Elections Act (“the Act”) requires the filing of audited returns by the chief agents of registered parties, the official agents of candidates and, in some cases, the financial agents of registered associations, leadership contestants and nomination contestants. Each return is to be reported on by an auditor who is a member in good standing of a corporation, an association or an institute of professional accountants and includes a partnership, every partner of which is such a member.

Ineligibility Provision - Statutory

- 2 The Act lists a number of persons (hereinafter referred to as “ineligible persons”) who cannot act as auditors for a registered party, candidate, registered association, leadership contestant or nomination contestant. These are:
- (a) an election officer or a member of the staff of a returning officer;
 - (b) a candidate;
 - (c) an official agent of a candidate;
 - (d) a chief agent of a registered party or an eligible party;
 - (e) a registered agent of a registered party;
 - (f) electoral district agents of registered associations;
 - (g) leadership contestants and their leadership campaign agents;
 - (h) nomination contestants and their financial agents; and
 - (i) financial agents of registered third parties.
- 3 The Act prohibits an ineligible person from participating in the audit examination of the records or in the preparation of the audit report of a candidate, a leadership contestant or a nomination contestant (except to respond to the auditor’s request for information). There is no similar restriction placed on the auditor of a registered party or a registered association. An eligible person may be appointed as auditor for a candidate notwithstanding that the person is a member of a partnership that has been appointed as an auditor for a registered party or for a candidate in another electoral district.

Council Extension of Ineligibility Provisions

- 4 Without wishing to extend the statutory prohibitions unduly, Council considers that there are additional interests or relationships to those spelled out in the Act, which could impair, or appear to impair, an auditor’s objectivity. This interpretation, therefore, sets out Council’s view on unacceptable interests or relationships, in respect of audits under the Act, encompassing both those prohibited by the statute and those unacceptable professionally.

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- 5 Council recognizes that too detailed a proscription, coupled with the widespread involvement of members, as citizens, in the political process, could make it almost impossible for the audit provisions of the Act to be given practical effect. Accordingly, this interpretation seeks to cover only the more obvious interests and relationships which might be considered unacceptable. Too narrow an interpretation could, in view of the many conceivable conflicts of interest, make it almost impossible for members and firms to serve the community's needs.

Definitions

- 6 "Candidate", "registered agent", "registered party", "official agent", "registered association", "leadership contestant", "nomination contestant" and "election period" have the meaning given to them in subsection 2(1) of the Act.

Audit of a Candidate

- 7 Council believes that a member may not be complying with Rule 204.1 if the member were to act as auditor of a candidate as well as being:
- (a) a paid worker during an election period for any candidate or any registered party;
 - (b) a volunteer worker during an election period for that candidate or the registered party of that candidate where
 - i) the member exercises any function of leadership or direction in that candidate's or that party's campaign organization, or
 - ii) the member carried on any significant function involving the raising, spending or custody of that candidate's or that party's campaign funds;
- or if an immediate family member, or a partner is:
- (c) a returning officer, deputy returning officer, assistant returning officer or election clerk in the electoral district of that candidate or is the candidate, official agent of that candidate or a registered agent of that candidate's registered party;
 - (d) a paid worker during an election period for that candidate or that candidate's registered party;
 - (e) a volunteer worker as described in (b) (i) above, during an election period, for that candidate or the registered party of that candidate.

Council believes that where a member is an "ineligible person" in respect of a particular candidate, the firm of which that member is a partner may not act as auditor of that candidate.

As noted in paragraph 3, the ineligible persons described in the Act may not participate in the audit examination of any candidate's return. Council believes that, as an extension of this, a member who could not act as auditor for a candidate because of any of the relationships

detailed in paragraphs 7(a) and (b) above, should not participate in the audit examination of a candidate's return.

Audit of a Registered Party, Registered Association, Leadership Contestant or Nomination Contestant

- 8 In addition to the statutory prohibitions set out in the Act, the Council believes that a member may not be complying with Rule 204.1 if the member were to act as auditor of a registered party, registered association, leadership contestant or nomination contestant and the member, or an immediate family member, or a partner is a paid worker or volunteer worker who exercises any function of leadership or direction or carried on any significant function involving the raising, spending or custody of funds belonging to the party, association or contestant, as the case may be.

Conclusion

- 9 Generally, members contemplating acting as auditors for registered parties, candidates, associations or contestants should be alert to any circumstances, not described in this Interpretation, which may place them in the position of impairment of objectivity or where an appearance of impairment might be presented. This type of question tends to arise, for example, where a donation of cash or of professional services is made. Members, as citizens, have the same responsibility to be involved in the political process as other citizens; such involvement may include financial support of a registered party, candidate association or contestant by a member, the member's immediate family or the member's partner. Council believes that the making of a financial contribution or the donation of professional services does not, of itself, necessarily create an impairment of objectivity, in these particular circumstances.

Members should recognize, however, the need to apply judgment to the question of the amount of any such contribution and must be satisfied that any such contribution does not in fact impair their audit objectivity or appear to impair it.

Council considers it of paramount importance that a member or a firm accepting an appointment under the Act makes such acceptance known to all partners so as to avoid any conflict arising within the provisions of the Act concerning ineligible persons.

CI 205 -FALSE OR MISLEADING DOCUMENTS AND ORAL REPRESENTATIONS

Rule 205

A member, student or firm shall not

(a) sign or associate with any letter, report, statement, representation or financial statement which the member, student or firm knows, or should know, is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor

(b) make or associate with any oral report, statement or representation which the member, student or firm knows, or should know, is false or misleading.

- 1** A member or firm who is not in public practice is subject to Rule 205 just as is the member or firm in public practice. It is recognized that this may place such a member or firm in a difficult position vis-à-vis the organization employing the member or firm or entities engaging the member's or firm's services. However, professional duty prohibits a member or firm from being associated with financial statements or other information, whether written or oral, which the member or firm knows, or should know, to be false or misleading.
- 2** When a member or firm finds it necessary to become disassociated from false or misleading information, it would be prudent for the member or firm to consider obtaining legal advice.

CI 206 - COMPLIANCE WITH PROFESSIONAL STANDARDS

Rule 206

- .1** *A member or firm engaged in the practice of public accounting shall perform professional services in accordance with generally accepted standards of practice of the profession.*
- .2** *A member who has responsibility for the preparation or approval of the general purpose financial statements of an entity shall ensure those financial statements are presented fairly in accordance with generally accepted accounting principles or such other accounting principles as may be required in the circumstances.*
- .3** *A member who, as a member of an entity's audit committee or board of directors, is required to participate in the review or approval of the entity's general purpose financial statements by such committee or board, shall carry out that responsibility with the care and diligence of a competent Chartered Accountant, enhanced by the skills and knowledge derived from the member's own career.*

Generally accepted accounting principles

- 1 The term “generally accepted accounting principles” has the meaning contained in the *CICA Handbook*. Some entities will prepare financial statements in accordance with other bases of accounting, including, for example, accounting principles generally accepted in another jurisdiction or accounting principles applicable to public sector bodies. In cases such as these, the term “generally accepted accounting principles” refers to the accounting principles that are required in the particular circumstances.
- 2 Compliance with Rule 206 necessarily involves the exercise of professional judgment in determining whether financial statements are presented fairly in accordance with generally accepted accounting principles. In this regard, the member or firm should refer to the *CICA Handbook – Accounting* and should ensure that the principles are applied in consideration of the spirit and intent of applicable accounting standards and other primary sources of generally accepted accounting principles.
- 3 Where no primary source of generally accepted accounting principles exists, the member or firm should conduct such research and consult such authoritative sources and experts as are necessary in the circumstances to ensure that the presentation is consistent with the relevant conceptual framework of the *CICA Handbook- Accounting* and generally accepted accounting principles. When exercising professional judgment in such situations, members and firms are reminded that no practice should be adopted solely on the basis of its use generally or within a particular industry. Further, extreme interpretations of a source do not constitute evidence that a practice is consistent with the conceptual framework of primary sources of generally accepted accounting principles. Members and firms should consider whether it is likely that most parties, exercising professional judgment, would reject such a practice because it does not result in a fair presentation of the financial position, results of operations or cash flows of the entity.
- 4 Members and firms should document the results of research undertaken and any other considerations influencing the member’s choice or acceptance of accounting policies and interpretation of generally accepted accounting principles.

Practice of Public Accounting

- 5 Rule 206.1 requires a member or firm engaged in the practice of public accounting to perform professional services in accordance with generally accepted standards of practice of the profession. Generally accepted standards of practice of the profession include, but are not limited to the following:
 - the standards and guidance contained in the *CICA Handbook*;
 - the governing legislation, bylaws, regulations and rules of professional conduct of the provincial institute(s) to which the member or firm belongs; and

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- requirements of relevant federal and provincial statutes.
- 6** Members engaged in the practice of public accounting should foster an environment within their firms that encourages the discussion and understanding of the application of accounting principles and other standards of practice of the profession and provides for a process to deal with professional dissent. Members should encourage others within the firm who disagree with the application of those principles and standards in a particular situation to communicate that disagreement to an individual in the firm designated for that purpose.
- 7** A member who is responsible for issuing an assurance report on an entity's financial statements and who believes that the financial statements prepared by the entity's management are not presented fairly in accordance with generally accepted accounting principles should refer to the guidance contained in the *CICA Handbook - Assurance* and
- (a) take those steps that are necessary to ensure that the financial statements are presented fairly in accordance with generally accepted accounting principles; or
 - (b) issue a report with an appropriate reservation, as required by the *CICA Handbook - Assurance*; or
 - (c) seek permission to resign from the engagement.
- 8** A member who participates in an engagement to provide assurance on the financial statements of an entity and who believes the financial statements of the entity are not presented fairly in accordance with generally accepted accounting principles should communicate that belief to the person responsible for the assurance engagement. If, after consultation, the member continues to believe that the financial statements have not been presented fairly in accordance with generally accepted accounting principles, the member should communicate that belief to one of the firm's senior partners. Where possible, the communication should be dated and issued prior to the issuance of the financial statements and should be retained by the member for a reasonable period of time.
- 9** Before communicating with one of the firm's senior partners, the member referred to in Paragraph 8, should consider:
- (a) whether the concern results in a material misstatement of the financial statements;
 - (b) whether the member possesses sufficient expertise and knowledge of the circumstances; and
 - (c) whether the member should first discuss the matter with another person in the firm.

Preparation of Financial Statements

- 10** It is management's responsibility to ensure that an entity's general-purpose financial statements are presented fairly in accordance with generally accepted accounting principles. A member who has the final responsibility for determining management's application of accounting principles in the entity's general purpose financial statements must take effective steps to ensure that the entity follows generally accepted accounting principles. In doing so, the member may obtain advice and counsel from others.
- 11** Rule 206.2 applies to those members who have responsibility for or oversight of the application of accounting principles in the preparation of an entity's general-purpose financial statements. In some cases, a member's responsibility or oversight may be limited to a component of the financial statements, in which case Rule 206.2 applies to that member in respect of the accounting principles applicable to that component of the financial statements as well as to the member who has final responsibility for determining management's application of accounting principles to the general-purpose financial statements of an entity, taken as a whole. The member who has the final responsibility for determining management's application of accounting principles to the general-purpose financial statements of an entity is responsible for the application of accounting principles in respect of each component of the financial statements and cannot claim undue reliance on the opinion of the member having responsibility for or oversight of a particular component of the financial statements.
- 12** A member who has participated in management's application of generally accepted accounting principles to all or a portion of the financial statements and who believes the general-purpose financial statements of the entity have not been presented fairly in accordance with generally accepted accounting principles should communicate that belief to the person who has final responsibility for determining management's application of accounting principles. If, after consultation, the member continues to believe the presentation is not appropriate, the member should communicate that belief to the entity's audit committee or, where there is no audit committee, the board of directors. Where possible, the communication should be dated and issued prior to the approval of the general-purpose financial statements by the audit committee or the board, as the case may be.
- The member should also communicate that belief to the person responsible for providing assurance on the financial statements. Before communicating with the entity's assurance provider, the member should consider obtaining legal advice.
- 13** Before communicating with the audit committee, board of directors or the entity's assurance provider, the member referred to in Paragraph 11 should consider matters including:

- (a) whether the concern results in a material misstatement of the financial statements;
- (b) whether the member possesses sufficient expertise or knowledge of the circumstances; and
- (c) whether the member should first discuss the matter with a more senior employee of the entity.

- 14** A member may prepare or approve financial statements that are not, and are not intended to be, presented in accordance with generally accepted accounting principles. Rule 206.2 does not apply when a member prepares or approves financial statements, which are
- (i) prepared solely for internal use within the entity; or
 - (ii) prepared for specified users under the terms and according to the accounting principles agreed to by the preparer and the specified users.

Such financial statements are not general-purpose financial statements.

Service on audit committees and boards of directors

- 15** A member who sits on an entity's audit committee or board of directors is expected to use the professional skills and knowledge that a competent Chartered Accountant would possess in fulfilling the member's responsibilities on such committee or board. Competency in the Chartered Accountancy profession is not static and cannot be defined without regard to time and context. Whether a member is competent is necessarily a question of fact at a point in time. Competency does not require a member who sits on an audit committee or board of directors to be an expert in financial accounting and reporting matters; nor does it require the member to act as a professional advisor to the audit committee or board. However, it does require the member to identify and raise the issues that should be discussed by the audit committee or board of directors, as noted below.

A member who sits on an audit committee or board of directors should encourage the audit committee or board of directors to have substantive discussions with management and with the entity's assurance provider. The *CICA Handbook*, provides useful guidance on the role that members of the audit committee or board members can play in the oversight of an entity's financial reporting process.

Matters that members who sit on an audit committee or board or directors should discuss with management and the assurance provider are the issues that a competent Chartered Accountant would raise, which include, but are not limited to:

- (a) the issues involved, and related judgments made by management, in selecting accounting policies and formulating significant accounting estimates and disclosures;
- (b) any disagreement within management or between management and the assurance provider with respect to the application of generally

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- accepted accounting principles and the resolution thereof;
- (c) the assurance provider's conclusions regarding the reasonableness of the estimates made by management and the bases therefor; and
- (d) the independence of the assurance provider.

In addition to the above, a member who sits on an entity's audit committee or board of directors should take reasonable steps to ensure the audit committee or board of directors discusses with management the overall performance of the assurance provider.

Members who are directors of entities should be familiar with the applicable requirements of regulatory bodies and other authoritative pronouncements on corporate governance matters.

All members

- 16** Members are also reminded of their obligations under the rules:
- (a) to bring to the attention of the Institute any information concerning an apparent breach of the rules of professional conduct or any information raising doubt as to the competence, reputation or integrity of another member (Rule 211.1); and
 - (b) not to sign or associate with any financial statement that the member knows, or should know, is false or misleading (Rule 205).

GLOSSARY: COUNCIL INTERPRETATIONS 207 TO CI 210

For the purposes of these interpretations of Rules 207 to 210 inclusive,

(a) Above the Wall

"Above the wall" is a term used to describe one or more partners or other senior members of a firm who have access to information about engagements undertaken by the firm and can therefore see both sides of a conflict. These individuals need to be particularly careful to avoid any improper use or dissemination of confidential client information to parties on either side of the wall. Partners or other members of the firm who are "above the wall" will be precluded from participating in those engagements about which they have information received in their positions above the wall.

(b) Fire Wall

A "Fire Wall" (sometimes referred to as a "Chinese Wall" or "Ethics Wall") is a conflict management technique maintained in a firm to restrict the flow of confidential information within the firm only to those who require it in order to fulfill the terms of an engagement. A Fire Wall is intended to ensure that confidential information is not improperly communicated, inadvertently or otherwise, to others within the firm.

(c) Cone of Silence

A "Cone of Silence" is an arrangement achieved by means of an undertaking by an affected person not to disclose confidential information relating to a specific client or engagement. In some circumstances, a Cone of Silence is achieved implicitly by special conduct of the person. In such circumstances, there should be observable evidence that the Cone of Silence is effective. Cones of Silence may be used to demonstrate foresight of the need to maintain the confidentiality of client information and thereby assist a firm to manage conflicts arising in various areas of its practice.

(d) Confidential Client Information

"Confidential client information" refers to information concerning the business and affairs of a client, acquired in the course of a professional relationship with the client. Such information is confidential to the client regardless of the nature or source of the information or the fact that others may share the knowledge. Such information remains confidential until the client expressly or impliedly authorizes it to be divulged.

In the case of an employee-employer relationship, the member or student has legal obligations to the employer that include a duty of confidentiality. The rule imposes a duty of confidentiality as a professional obligation, which is in addition to the member's or student's legal obligation to the employer.

(e) Conflict of Interest

A "conflict of interest" arises from an interest, restriction or relationship that, in respect of an engagement, would be seen by a reasonable observer to influence a member's judgment or objectivity in the conduct of the engagement.

(f) Institutional Mechanisms

"Institutional mechanisms" are reasonable measures that are formally undertaken by a firm to manage conflicts and to restrict the flow of confidential client information from one person in a firm to another. Such measures may include internal training, internal barriers such as Fire Walls, Cones of Silence, restricted access to files, physical separation of personnel or departments and formal firm policies and procedures.

(g) Informed Consent

"Informed consent" refers to a client's agreement, usually to proceed with an engagement, having been provided with sufficient information concerning the existence of a conflict, its nature and its potential consequences, to make a knowledgeable decision.

(h) Need to Know Basis

The "need to know basis" refers to a policy of restricting the flow of confidential client information inside a firm to those members who require the information to pursue the client's interest.

(i) Rebuttable Presumption

A "rebuttable presumption" is a presumption that will be deemed to be valid or true until adequate evidence to the contrary is produced. A presumption is rebutted when the actual facts are found to be different than the presumption assumes.

CI 207 - UNAUTHORIZED BENEFITS

Rule 207

A member or student shall not, in connection with any transaction involving a client or an employer, and a firm shall not, in connection with any transaction involving a client, hold, receive, bargain for, become entitled to or acquire, directly or indirectly, any fee, remuneration or benefit for personal advantage or for the advantage of a third party without the knowledge and consent of the client or employer, as the case may be.

- 1 Refer also to Rule 216 and CI 216, Payment or Receipt of Commissions.

CI 208 - CONFIDENTIALITY OF INFORMATION

Rule 208

- .1 A member, student or firm shall not disclose any confidential information concerning the affairs of any client, former client, employer or former employer except:*
- (a) when properly acting in the course of carrying out professional duties;*
 - (b) when such information should properly be disclosed for purposes of Rule 211 or Rule 302;*
 - (c) when such information is required to be disclosed by order of lawful authority or, in the proper exercise of their duties, by the Council, the professional conduct committee or any subcommittee thereof, the discipline committee, the appeal committee, or the practice inspection committee;*
 - (d) when justified in order to defend the member, student or firm or any associates or employees of the member, student or firm, as the case may be, against any lawsuit or other legal proceeding or against alleged professional misconduct or in any legal proceeding for recovery of unpaid professional fees and disbursements, but only to the extent necessary for such purpose; or*
 - (e) when the client, former client, employer or former employer, as the case may be, has consented to such disclosure.*

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.2 *A member, student or firm shall not use confidential information of any client, former client, employer or former employer, as the case may be, obtained in the course of professional work for such client or employer*

- (a) for the advantage of the member, student or firm,*
- (b) for the advantage of a third party, or*
- (c) to the disadvantage of such client or employer*

without the knowledge and consent of the client, former client, employer or former employer.

.3 *A member or firm engaged to perform a particular service may contract for the services of a person not employed by the member or firm to assist in the performance of that service, provided the member or firm first obtains the written agreement of that person to carefully and faithfully preserve the confidentiality of any information acquired for the purposes of the engagement and not to make use of such information other than as shall be required in the performance of such services.*

- 1** The duty to keep a client's affairs confidential should not be confused with the legal concept of privilege. The duty of confidentiality precludes the disclosure of a client's affairs without the knowledge and consent of the client. The duty of confidentiality to clients and former clients does not expire with time. As confidential information becomes dated the duty may be of less practical concern to a client, but the duty continues.
- 2** The duty of confidentiality does not excuse a member or firm from complying with a legal requirement to disclose the information. However, the courts have held that a member or firm faced with a subpoena or other request to disclose information should be aware of the member's obligation to bring to the attention of the court or other authority the member's duty of confidentiality to the client. If there is doubt as to the legitimacy or scope of a claim for disclosure, legal advice should be sought. Ultimately, in a dispute, a court will determine, based on the facts, whether the confidentiality of client information should be maintained.
- 3** A member, student or firm will not be in contravention of any rule governing confidentiality by reason of obtaining legal advice with respect to the duty of confidentiality.
- 4** One of the underlying issues when dealing with conflicts of interest is controlling the degree to which persons in a firm share client confidences. (See also Rule 210.) Rule 208 prohibits the improper use of confidential client information, but does not restrain its disclosure within a firm. Members and students may find they are in a position of conflict due to the general legal presumption that the knowledge of one person in a firm is shared with or attributed to others in the firm.

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The legal presumption that knowledge is shared within a firm may be rebutted if the firm can demonstrate that effective institutional mechanisms are in place to limit the sharing of confidential information within the firm.

This basis of sharing information within a firm recognizes that different persons in a firm have different needs for information in order to properly fulfill their responsibilities. For example:

- (a) An assurance provider must have information on all aspects of a client's affairs that might affect the assurance provider's opinion on the financial statements.
 - (b) A tax practitioner, in the course of preparing or reviewing an income tax return, must have information on all aspects of a client's affairs that might affect the income tax return.
 - (c) A forensic accountant undertaking an investigation of a client's affairs might only require information relating to the subject of the inquiry.
 - (d) A member who is providing a professional opinion on a matter may wish to seek the advice of another member of the firm.
- 5** Where appropriate, members and firms should also inform clients and potential clients that the use of institutional mechanisms, which safeguard their confidential information, necessarily means that a member serving a particular client may not be aware of information that is confidential to another client, which would assist the member's client and advance that client's interest.

CI 209 – BORROWING FROM CLIENTS

Rule 209

- .1** *A member, student or firm shall not, directly or indirectly, borrow from or obtain a loan or guarantee from a client unless either*
- (a) the loan or guarantee has been made under normal commercial terms and conditions, and*
 - (i) the client is a bank or similar financial institution whose business includes lending money to the public; or*
 - (ii) the client is a person or entity, a significant portion of whose business is the private lending of money;*
 - or*
 - (b) (i) in the case of a member or student, the client is a family member or an entity over which a family member exercises significant influence; or*
 - (ii) in the case of a firm, the client is a family member of a partner or shareholder of the firm or an entity over which a*

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family member of a partner or shareholder of the firm exercises significant influence.

- .2** *Rule 209.1 does not apply to:*
- (a) the financing of a bona fide business venture between a member, student or firm and a client that is not an assurance client;*
 - (b) amounts received from a client as a retainer or as a deposit on account of future services to be provided by the member, student or firm; or*
 - (c) a loan received from a member or student's employer.*
- .3** *For purposes of Rule 209.1, a client includes a person or entity who has, within the previous two years, engaged the member or firm to provide a service and who relies on membership in the Institute as giving the member or firm particular competence to provide that service.*

- 1** It is a fundamental principle of the profession that members, students and firms provide advice to their clients that is free of prejudice, conflict of interest or undue influence that may impair sound professional judgment or objectivity. When a member, student or firm borrows money from a client, there may be a conflict between the interests of the member, student or firm and those of the client. Accordingly, members, students and firms that enter into the types of financing or borrowing arrangements that are allowed under Rule 209.1 or 209.2 are cautioned that they must comply with all of the other Rules of Professional Conduct including, but not limited to:
- i. 201- Maintenance of reputation of profession;
 - ii. 202.1- Integrity and due care and 202.2- Objectivity;
 - iii. 204- Independence;
 - iv. 208- Confidentiality of information; and
 - v. 210- Conflict of interest
- 2** When a member or student borrows money from or has a loan guaranteed by a client who is a family member or an entity over which a family member exercises significant influence, the member or student should consider setting out the terms and conditions of the loan or guarantee in writing. Before the loan or guarantee is made, the member or student should also consider advising the client to obtain independent advice with respect to the matter. Similar considerations should apply when a firm borrows money from or has a loan guaranteed by a family member of a partner or shareholder of the firm or an entity over which a family member of a partner or shareholder of the firm exercises significant influence.
- 3** For purposes of Rule 209.1(b), a family member means any of the following persons
- (a) a spouse (or equivalent); or
 - (b) a parent, child, sibling, grandparent, grandchild, aunt, uncle, niece, nephew or first cousin who is related to the member or the member's spouse (or equivalent) by blood, marriage or adoption

- 4 Rule 209.1 applies only to new borrowings or guarantees or amendments to the terms of existing borrowings or guarantees that occur after the lender becomes a client. When an existing lender or guarantor becomes a client, the member, student or firm should be mindful of the need to provide services with due care and an objective state of mind and, accordingly, should consider whether the loan should be repaid or the guarantee released.

CI 210 – CONFLICT OF INTEREST

Rule 210

- .1 A member or firm engaged in the practice of public accounting or in a related business or practice shall, before accepting any professional engagement, determine whether there is any restriction, influence, interest or relationship which, in respect of the proposed engagement, would cause a reasonable observer to conclude that there will be a conflict as contemplated by Rule 210.2.*
- .2 Subject to the provisions of Rule 210.3, a member, student or firm shall not accept, commence or continue any engagement to provide professional services to any client in circumstances where a reasonable observer would conclude that the member, student or firm:*
- (a) is in a position or has placed any person in a position where any of their interests conflicts with the interest of a client; or*
 - (b) is in a position where the duty owed to one client creates a professional or legal conflict with the duty owed by the member, student or firm to another client.*
- .3 Where the acceptance of a proposed engagement would result in a conflict under Rule 210.2 or where a previously unidentified conflict under Rule 210.2 arises or is discovered in the course of an existing engagement or engagements, the member or firm must decline the proposed engagement, or withdraw from all existing engagements that are affected, unless:*
- (a)(i) the member or firm is able to rely upon conflict management techniques that are generally accepted and the use of such techniques will not breach the terms of an engagement with or duty to another client;*
 - (ii) the member or firm informs all affected clients of the existence of the conflict and the techniques that will be used to manage it; and*
 - (iii) the member or firm obtains the consent of all affected clients to accept or continue the engagement or engagements; or*

(b) the affected clients have knowledge of the conflict and their consent for the member or firm to accept or continue the engagement is implied by their conduct, in keeping with common commercial practice.

.4 For purposes of Rule 210, a client includes any person or entity for whom the member, student or firm, or any other person engaged in the practice of public accounting or a related business or practice in association with the member, student or firm, provides or is engaged to provide a professional service.

1 Identifying Conflicts

Rules 210.1 and 210.2 together require members and firms to determine whether there exist conflicts as between themselves and their clients or proposed clients, or between the duties and obligations owed to one client and the duties and obligations owed to another client or a proposed client.

Where such a conflict is found to exist, the member or firm must decline to act in the proposed affected engagement, or withdraw from the engagement, unless the consent of the client or proposed client to proceed or continue the engagement is implied by the client's or proposed client's conduct or the conflict can be managed as provided in Rule 210.3(a).

Conflicts in a member's firm or practice generally arise in three broad types of circumstance described as follows.

Public Practice Objectivity Issues

As provided in Rule 204 and the related Council interpretation, the provision of assurance and insolvency services must be objective, both in fact and appearance. In considering conflicts of interest with respect to a professional engagement, members and firms should refer to Rule 204 and the related Council interpretation for more complete guidance in determining objectivity.

Protecting Confidentiality of Client Information

As provided in Rule 208 and the related Council interpretation, members, students and firms must protect the confidentiality of client information and assure clients that this information will not be disclosed. The only exceptions to this obligation are set out in the Rule itself.

Pursuit of Clients' Interests

Members, students and firms have an obligation to all of their clients to provide professional service with integrity and due care. Since members and their firms will have a number of clients, they may encounter conflicting client interests when fulfilling their obligations to each client. While a member or firm may be able to provide services to clients whose interests conflict, they must consider the extent of their obligations to each client and then use professional judgment to determine whether any particular conflict must be avoided, or whether explicit consent must be obtained or the situation reflects common commercial practice where the consent of the client to act is implied by the client's conduct. Where there is explicit or implied consent, the member or firm must also consider whether the conflict can be managed appropriately.

2 Common Commercial Practice

The following situations involve implied consent and reflect common commercial practice:

"The firm is acting as auditor for several clients who happen to compete in the same industry. They have hired us for our experience with their industry, and respect our reputation for protecting confidential information."

It is reasonable for members to conclude that clients with knowledge of the circumstances who do not object to a conflict at the outset of an engagement have accepted the conflict.

"I am doing an audit for Company XYZ and they have asked me to do some consulting as well. As an assurance provider, my duty is to report to the shareholders. As a consultant engaged by management, my duty is to the corporation."

Members must be aware of the implications to their objectivity and independence when providing consulting services to an assurance client.

3 Other Conflicts

Appropriate Management of Conflicts

There will be instances where a conflict will arise that can be appropriately managed provided the circumstances are clear to all parties and there is explicit consent on the part of all parties to proceed.

The following conflict situations may or may not be acceptable to the public:

“I would like to call upon an expert within my firm to assist on a particular matter for one of my clients. This expert is already committed to another client.”

Whether this situation creates a conflict depends on many factors, including the number of experts in the firm.

“The firm has two separate clients who have asked it to take on a merger and acquisition assignment—however, each client is focused on acquiring the same target company.”

Whether this situation creates a conflict depends on the ability to use distinct teams on each engagement and the effectiveness of procedures put in place to safeguard confidential client information.

There is a rebuttable presumption that the following conflict situations are unacceptable and, if the presumption is not rebutted, must be avoided:

“The firm has been asked by the husband and 50% shareholder of the firm’s client, Company X, for assistance in purchasing the shares of the other 50% shareholder (his wife) in settling the distribution of assets in a divorce settlement.”

“The firm has been asked to complete a merger and acquisition assignment for my client but the takeover target is already a client (or former client) of the firm.”

“The firm is conducting a job search engagement for a client. I have found an excellent candidate to fill the position—only this candidate is currently employed by one of our firm’s clients.”

“I have been asked to pursue a strategic marketing study for one of my clients—however, the firm is already undertaking a similar marketing study for another client in the same market.”

Whether this final example is a conflict that can be managed will depend on the ability of the firm to use appropriate institutional mechanisms on the two engagements.

4 Conflicts Encountered by Professional Service Area

Institute members who are also members of another professional body must also adhere to that other body's code of conduct. Other professional bodies would include, among others, the Canadian Association of Insolvency and Restructuring Professionals, the Canadian Institute of Business Valuators and the Canadian Institute of Actuaries. Where the Institute's rules differ from those of the other professional body, the higher of the two standards will apply.

It is possible that the nature of an engagement may change during the course of the engagement. This is particularly true when a member or firm is asked to conduct an engagement in a situation that is potentially adversarial, even though the parties who engage the member may be in accord initially. Therefore, members must consider the possible existence and management of conflicts throughout the course of the engagement.

The following is a discussion of conflicts of interest commonly encountered by members and their firms in the significant areas of professional practice.

Assurance Services

(a) A member or firm may be asked to provide assurance services for two or more clients who have competing commercial interests. There will either be implied consent on the part of all clients for the member or firm to act or the assurance provider will deal with the conflict by obtaining the informed consent of each client. In either case, the member should use procedures to protect confidential client information.

(b) A member or firm may possess confidential information obtained from one assurance client that is important to the fulfilment of the assurance engagement of a second client. For example, a member may learn during the course of an assurance engagement that the assurance client is in serious financial difficulty. If the member also undertakes an assurance engagement for a major supplier of the assurance client, the member will possess confidential information that could result in a material change to the financial statements of the supplier-client. The member may not rely on this confidential information to complete the engagement for the supplier-client. If the supplier-client is unaware of the information relating to the first client, the member has a conflict of interest that must be resolved.

In such circumstances, the member is expected to use reasonable efforts to obtain the confidential information from other sources, and if this is not possible, the member should seek legal advice.

(c) A member or firm may possess confidential client information gained in the course of an assurance engagement that would be useful in the provision of other professional services by the firm. Such confidential client information obtained in the course of the assurance engagement must be protected from disclosure or use for other purposes unless prior permission is obtained from the client.

(d) An assurance provider has the right to obtain the information that is required in order to carry out the assurance engagement. For this reason, the assurance provider is expected to have all knowledge concerning the client that the firm possesses that is relevant to the assurance engagement. Clients are expected to give assurance partners the information directly but may authorize assurance partners to seek out the information from others within the firm. Information protected by legal privilege would be dealt with by following the protocol for enquiries established by the lawyers involved.

(e) A member or firm engaged to provide an assurance report to the shareholders on a set of financial statements might be asked by one shareholder for confidential client information from the audit working papers to be used by that shareholder in a dispute with another shareholder. Since the assurance provider's principal duty is to the shareholders as a group and not to individual shareholders, such a request would present a conflict.

(f) Members and firms should refer to Rule 204 and the related Council interpretation for guidance on conflicts that may affect independence and objectivity with respect to an assurance engagement.

Taxation Services

(a) A tax practitioner is likely to be involved in providing tax assistance and advice to a wide variety of clients who are entitled to expect their affairs to be kept confidential. The tax practitioner is expected to provide each client with the benefit of all of his or her professional knowledge unless the practitioner and the client agree, preferably in writing, that particular knowledge that the practitioner possesses may not be disclosed to third parties because it is proprietary to the client. Other clients should be made aware that this restriction might exist from time to time.

(b) A member or firm may be asked to provide tax-planning advice to two clients who will use that advice to pursue an objective that only one of them can achieve. Since both of the clients are in pursuit of the same objective, there is an initial presumption that the firm can accept only the first request to act in the matter. It may, however, be possible for different persons within the firm to act for each client through the use of effective institutional mechanisms, thus rebutting the initial presumption that the firm cannot serve both clients.

(c) A tax practitioner may obtain only the limited information that relates to his or her specific engagement. In such a case, it is reasonable to believe that the tax practitioner will not possess all of the firm's knowledge of a particular client and it may be possible to satisfy the onus of demonstrating that the firm's knowledge is not automatically shared by the particular tax practitioner.

Management Consulting Services

A management consultant may be involved in a variety of engagements such that there are conflicts which may be acceptable in one type of engagement but which are unacceptable in another. Since consulting engagements usually have clearly stated objectives and a defined life span, the issue of possible conflicts of interest is often dealt with in the terms of the engagement (i.e., the extent of the member's obligations are agreed to by contract).

Consulting engagements may be generally regarded in three categories for the purpose of considering the issue of conflict of interest, as follows:

(a) Process and design consulting engagements, which generally involve the provision of specialized knowledge to assist a client to achieve an objective that the client has chosen. It is usual for a consultant to provide such assistance to a wide range of clients, some of whom may have competing interests. Often, the consultant is selected for specialized expertise. The clients recognize that in the future the consultant is likely to make that expertise available to others, having built on experience gained along the way.

(b) Strategic consulting often involves a consultant assisting a client in the selection of optimum business strategies. Strategic consulting is likely to involve the most highly sensitive and confidential business information. Consultants providing these types of services typically recognize this sensitivity and do not work for clients who are in direct competition. It is, however, recognized that the business strategies selected often become publicly known within a short time frame and it is therefore possible that, after a suitable time, a consultant may undertake work for a direct competitor of a previous client. Such matters should be expressly addressed in the engagement contract.

(c) Search consulting involves assisting a client to locate information or resources that are necessary for the client to attain an objective. Since the information or resource is likely to exist within another commercial enterprise, the opportunity for a conflict of interest to arise is particularly great. For this reason, it is customary for the consultant to disclose at the outset the nature and extent of any limitations on the scope of the search.

Merger/Acquisition Services

(a) A practitioner involved in merger and acquisition activity is likely to be involved in a number of such engagements concurrently working for both existing and new clients. Where the practitioner is a member of a firm there may be several types of specialized support which the firm will offer in this area of activity ranging through due diligence, tax planning, market analysis and pricing of the proposed transaction.

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A member involved in mergers and acquisitions is expected to use a variety of conflict management tools to provide the greatest possible assurance that confidentiality of the work will be maintained unless otherwise agreed with the client. A firm will be expected regularly to employ Fire Walls and to impose Cones of Silence on those who are consulted in the work. Where consultations beyond the firm are required, the use of confidentiality agreements will be necessary.

(b) Due to the nature of the work of a merger and acquisition practitioner, it is recognized that the pursuit of an engagement for one client may run contrary to the interest of another client of the firm.

When a firm uses institutional mechanisms such as Fire Walls, it should be recognized that if their use is challenged in a court of law, the firm will be required to demonstrate that the institutional mechanisms are effective. Even then, when one or more of the firm's merger and acquisition practitioners are working for clients pursuing approximately the same objective within approximately the same time frame, the firm, with the permission of each client, is expected to obtain the informed consent of all such clients, ordinarily in writing. While able to provide advice, unless agreed otherwise by all clients, the firm should exclude itself from the client's decision-making role.

Forensic Accounting & Litigation Support Services

(a) A forensic practitioner may engage in a number of different types of activity that will involve different expectations from a client. The most common different circumstances are finder of fact (including fraud investigations, breach of law investigations), quantification of losses and expert accounting and auditing testimony (including where a firm employs other experts such as actuaries, engineers, and economists).

In almost all circumstances, there is the real possibility that an engagement will become part of a dispute. There is, therefore, the expectation that the member will respect the firm's obligations to its clients by not acting against them. This expectation may be modified in circumstances where the client engaged the firm for a narrow and unrelated purpose (such as a productivity improvement consulting assignment or an employee search assignment), but the member will only be able to rebut the presumption if it is clear the information received from the client is not relevant to the matter is dispute.

In the case of current clients, the firm may proceed with the engagement with the informed consent of both parties. The use of tools such as informed consent, Cones of Silence and Fire Walls will assist the firm to demonstrate that confidential information will be protected.

(b) It would ordinarily be appropriate for a member or firm to act as a finder of fact for parties on the opposing sides of a conflict where both parties agree to use the fact finding report as an agreed statement of fact within the legal process.

Valuation Services

(a) A valuation practitioner may or may not be a chartered business valuator (CBV). Valuation practitioners recognize the need to avoid conflicts of interest by not acting for two or more clients whose interests may conflict, except after adequate disclosure to and with the express written consent of all parties.

(b) Valuation practitioners must take care not to create a conflict of interest by accepting an engagement that will put them in a position of advocacy against another client or former client when the practitioner has confidential information of that former client. For example, a valuation practitioner should not accept an engagement from one shareholder group of a company that is being broken up (butterfly transaction) where the member has previously provided services to all shareholders of the company. Similar considerations also exist where the clients are a married couple who are divorcing.

Actuarial Services

A member who provides actuarial services may be a member of the Canadian Institute of Actuaries. Conflicts of interest should be less likely in actuarial assignments. However, when actuaries become involved in areas such as merger and acquisitions where conflicts frequently do arise, they are expected to conduct themselves as other members working in those areas.

Insolvency Services

A member who provides insolvency and corporate recovery services may be a licensed trustee and a member of the Canadian Association of Insolvency and Restructuring Professionals. Since much of this work is carried out under the auspices of the court, there is a special set of rules to deal with potential conflicts in the various roles that a member may serve. Although these rules prevent members from serving roles for different classes of creditor, they do permit the grouping of creditors of a single class into one pool, even though some of these creditors may have conflicting interests.

5 The Process for Dealing with Conflicts of Interest

Step 1: Identify Conflicts or Potential Conflicts

In order to identify conflicts or potential conflicts when accepting a new engagement, a member should seek information from others within the firm as to the interests of other clients and their affiliations. While many conflicts are obvious from the beginning, other conflicts may arise during the course of an engagement. Often, identifying conflicts is more difficult than dealing with conflicts.

There are three types of conflict, which may overlap, described as follows.

Professional Conflicts

Firms and members, students and others within their firms are required by the profession to observe the rules of professional conduct. In order to preserve the highest possible standards for the CA profession, each of them is expected to engage only in activities that will maintain the good reputation of the profession and its ability to serve the public interest. When this obligation runs contrary to a client's interest, a professional conflict exists.

Legal Conflicts

Legal conflicts of interest arise primarily out of obligations to clients or specific contractual agreements. A member and his or her firm have a duty within the standards of the profession to pursue the client's interests and to protect confidential client information. Thus, when two clients have conflicting interests, the firm cannot fulfill a duty to both unless appropriate institutional mechanisms are in place.

In addition, when a member is acting within the framework of litigation or potential litigation, the courts will want to ensure that the legal process is not compromised by participants, who act as experts, being influenced by interests or relationships which impair or might impair their objectivity.

Business Conflicts

Business conflicts occur when the business interest of a client is contrary to the business interest of the member or his or her firm or the business interest of another client of the member or firm. A business conflict raises management, not professional, issues for the member and his or her firm and can be resolved without reference to the rules of professional conduct unless it also involves a professional or legal conflict. Business conflicts include the following examples:

- (a) a particular engagement may require too large a commitment of scarce resources in the firm;
- (b) the provision of certain services to a client may preclude the provision of other, more lucrative, services to the same client;
- (c) the firm is dissatisfied with the risk/reward analysis.

Each firm should develop a conflict identification process. This process should include a client information database and a system that allows for timely access to the database by members of the firm

so that real or potential conflicts can be recognized promptly. Conflict inquiries should be documented. The client information database should be kept up-to-date, and should not include confidential client information.

A member who practises in an international partnership, or has an association with a firm or firms which have an international practice, will have to exercise professional judgment when deciding who should be consulted when seeking information about conflicts and possible conflicts. Consultation will normally be limited to the country or countries in which the particular engagement will be conducted unless the member is aware of the potential for conflicts arising in a broader geographical area. The nature of the partnership or association and the interests of the potential client are two factors the member should consider.

For areas of practice where conflicts must usually be avoided rather than managed, a firm's conflict identification process will likely need to be more extensive and formal and should include the identification of a person or persons in the firm to act above the wall as a conflict management officer or officers.

An effective conflict identification process will allow a firm to identify conflicts (or possible conflicts) early on in an engagement. The earlier a potential conflict is identified, the greater the chance the firm will be able to choose to manage the conflict, rather than avoid the engagement altogether.

Step 2: Assess the Conflicts

After conflicts and possible conflicts have been identified, a member should exercise professional judgment as to whether the conflict must be avoided altogether by declining the engagement, or whether the conflict can be appropriately managed.

When assessing the conflict, members and others in a firm should consider the following questions.

- (a) Is the conflict solely a business conflict such that it does not require any action under the rules of professional conduct?
- (b) Is the conflict one where consent to proceed can be implied from the client's conduct, in keeping with common commercial practice, or is it necessary to obtain explicit consent?
- (c) Does the conflict impair the member's or firm's independence and objectivity with respect to an assurance engagement?
- (d) Does the conflict hinder the member's ability to perform his or her duties?

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(e) What will be the impact on the client's ability to obtain professional services should the member or firm choose to decline the engagement? In smaller communities, where there are fewer practitioners available to serve clients' needs, there may be more occasions when it is necessary to manage conflicts.

(f) Would a reasonable person be satisfied that the proposed conflict management approach is satisfactory to manage the conflict?

(g) Is it likely the requested service will go before a court where another client of the firm will be an opposite party? Unless the member has been asked to act as a fact finder or is providing information that is not contested, a court is likely to find it unacceptable for a firm to represent two clients who are litigating against each other.

(h) Will the institutional mechanisms available to the member or the firm be effective in managing the conflict? This will be determined by the facts of the situation and the onus will be on the member or the firm, where necessary, to demonstrate to the courts that the institutional mechanisms are effective in protecting confidential client information.

(i) Will the member's or the firm's decision to avoid the conflict by resigning from the engagement be a commercially satisfactory solution for the client or clients in conflict? In many cases, the solution to avoid the conflict by resigning from the engagement with each of the clients will not be commercially satisfactory.

Once a member has identified a conflict and assessed its impact, the member may decide to:

(a) Decline/Terminate the Engagement – For those conflicts that are not possible or appropriate to manage, the member should inform the client that the engagement will be declined or terminated; or

(b) Develop an Effective Conflict Management Approach – For manageable conflicts, the next step is to develop an effective Conflict Management Approach. Members must be aware that the decision to manage a conflict may be subjected to challenge later; or

(c) Accept the Engagement – For those conflicts that, by reason of their common acceptance in practice, it is deemed not necessary to manage through special procedures or obtaining consent, no action is required before the engagement is accepted.

Generally, most decisions with respect to business conflicts of interest will be made by a member or the firm based on a desire to retain the confidence of and relationship with existing clients and potential clients and will generally not involve consideration of the rules of professional conduct. For this reason, a member or firm may decide to do work for competitors of a client; not to do work for a direct competitor of a significant client; or, to seek permission before providing a particular service to a competitor of a client.

Step 3: Develop a Conflict Management Approach

Once the member or the firm has identified a conflict that is potentially manageable, the next step is to examine the various institutional mechanisms that are available within the firm to manage the conflict. A Conflict Management Approach is then developed, incorporating the various institutional mechanisms selected. While no specific approach is proscribed, each Conflict Management Approach must be effective and the member or firm must be able to demonstrate that it is effective. The member should then provide disclosure to the affected client or clients and obtain client consent to proceed.

Choose the Institutional Mechanisms

The following institutional mechanisms may be incorporated in an effective Conflict Management Approach.

Firm Structure

A firm may organize itself in a variety of ways to deal with conflict issues, such that the organization itself becomes an effective Conflict Management Technique. A firm should consider the adoption of some or all of the following conflict techniques as part of its organizational structure. It is noted that, depending on factors such as the size of a firm, not every technique will be appropriate for every firm:

(a) Adopt Conflict Management Policies that provide firm members with guidance on dealing with conflicts. These policies should recognize the role of professional judgment in the process and require members of the firm to be able to demonstrate that the interests of their clients will be served at a high professional standard. The policies should also require that clients be informed as to what they should expect when agreeing to allow a firm with a conflict to act on their behalf.

(b) Implement an Engagement Reporting Structure that is overseen by a Conflicts Management Committee or by one or more persons within the firm. The role of the Committee or responsible person(s) is to (i) identify, at the outset, potential conflicts, and decide whether to avoid the conflict or manage it and (ii) be informed of possible conflicts and provide assistance to others within the firm on exercising professional judgment with respect to conflict management. The person(s) determining or managing a particular conflict should be above the wall with respect to that conflict.

(c) Create separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm. The flow of information from one area to another should be restricted by firm policies and procedures. Such policies and procedures would not preclude the cross-departmental sharing of information by members of a particular

client service team. Within each separate area, members must understand the expected limitations in sharing confidential client information across areas. It is recognized that the larger and more complex the firm, the more likely the need is for creating separate areas of practice.

(d) Establish policies and procedures to limit access to files. Much of the information obtained throughout the course of an engagement is retained in the files of the firm, either electronically or paper-based. To maintain the confidentiality of these files, a firm may put in place a formal system that limits access to these files to persons who are working directly on the engagement, logs access to files, and documents any access exceptions. The physical segregation of particular confidential information may further enhance its protection. Broad access to non-public information that has been retained by a firm may be viewed by its clients as contrary to its responsibility to protect confidential information.

(e) Use blanket or engagement-specific confidentiality agreements signed by employees, which will emphasize the need to protect confidential information.

(f) In areas of practice where it is likely conflicts of interest will arise on a regular basis, use code names or numbers to assist in the use of Fire Walls and other conflict management tools.

Fire Walls

The effectiveness of Fire Walls will be improved by the use of internal procedures such as designating an above the wall person to monitor the activities within the Fire Wall(s) and to ensure that the firm as a whole is not acting in an inappropriate manner. This person would:

- (a) ensure that the firm did not engage in activities that it was not appropriate or possible to manage;
- (b) ensure that persons joining or leaving a team within the firm do not create new unacceptable conflicts;
- (c) document the teams' respect for the wall; and
- (d) avoid involvement in or detailed knowledge of information contained within the wall.

Fire Walls should involve some combination of the following organizational arrangements:

- (a) physical segregation of people and files;
- (b) an educational program, normally recurring, to emphasize the importance of not improperly or inadvertently divulging confidential information;

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- (c) strict and carefully defined procedures for dealing with a situation where it is felt that the wall should be crossed, and maintaining proper records where this occurs;
- (d) monitoring by compliance officers of the effectiveness of the wall; and
- (e) disciplinary sanctions where there has been a breach of the wall.

Cones of Silence

Cones of Silence may be used to:

- (a) demonstrate foresight of the need to maintain client confidentiality and thereby assist a firm to manage conflicts arising in various areas of its practice;
- (b) allow a firm specialist to work on a minor aspect of an engagement, without being brought formally within a Fire Wall; and
- (c) demonstrate the commitment of those involved.

In some rare circumstances, a Cone of Silence is demonstrated implicitly by the special conduct of a member or another person in the firm. In such circumstances, there should be observable evidence that the Cone of Silence will be effective.

The limitations on the use of Firm Structure, Fire Walls and Cones of Silence must always be recognized and considered in terms of whether the firm's obligations to its clients can be fulfilled. A professional judgment must always be made in light of the particular facts and circumstances. Institutional mechanisms that are set up on an ad hoc basis, after a conflict is identified, will not be seen to protect confidential information that may already have been shared within a firm. Ongoing institutional mechanisms used on a regular basis are more likely to be effective and be seen to be effective than those set up on an ad hoc basis.

The uses of institutional mechanisms to restrict information flows between units or individuals within a firm may not be effective when:

- (a) a client expects to have complete access to all of the firm's resources. The use of a Fire Wall to protect the interest of another client may not be acceptable to the client;
- (b) a member or firm is not able to demonstrate clearly that they have been and will continue to be highly effective in preventing the sharing of confidential information;
- (c) there is a single department, operating unit or a large number of

people coupled with a high turnover rate within the wall; or

(d) a member attempts to hide behind the wall. The existence of a Fire Wall does not relieve a member or firm from making the appropriate enquiries or exercising professional judgment.

Provide Disclosure and Obtain Client Consent

A fundamental underpinning to the management of conflicts of interest involves informed consent by clients. Unless the conflict is one that reflects common commercial practice such that the client's consent can be inferred from the client's conduct, informed consent should be obtained by:

- a) notifying the client of the existence of a conflict; and
- b) either declining or resigning the engagement or obtaining the agreement from the client to proceed in spite of the conflict.

The onus is on the member or firm to be able to demonstrate that informed consent has been obtained. In cases where the conflict is one referred to in Rule 210.3(b), the informed consent must be implied by the client's conduct and acceptance of the circumstances. In all other cases, it is desirable to obtain informed consent in writing. When written consent is not obtained, the client's verbal consent and the details thereof should be noted in the member's or the firm's files. The more direct the conflict is between existing or potential clients, the more important it is for the firm to ensure that the clients and potential clients know that their interests may conflict with the interests of other clients of the firm and that the firm has effective measures in place to ensure that confidentiality is maintained. In each case, members should use professional judgment in determining the nature and extent of disclosures required to be made to each client and the need to obtain consent in writing.

If notifying the client of the existence of a conflict would, in itself, constitute a breach of confidentiality, the member or firm will have no choice but to decline the engagement.

The appropriateness of managing a particular conflict is likely to depend on the particular facts and circumstances. As circumstances evolve, clients who initially agreed to allow a firm with a conflict to act may change their position. The risk and consequences of this possibility should be considered at the outset.

When a member enters into discussions with a client about the impact of possible conflicts on the client's interest, the member should specifically address how the obligations to the client will be met and what restrictions, if any, there will be on access to the expertise of the firm.

It appears that the courts will recognize the contractual clarification of a

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member's obligations by either express or implied terms along with disclosure and consent, for example:

(a) An engagement letter or contract may be used to clarify the member's and the client's obligations in an engagement. The following wording might be used to inform a client of potential conflicts in an engagement, restrictions that could apply and the use of institutional mechanisms to protect confidential client information:

"We provide a wide range of services for a large number of clients and may be in a position where we are providing services to clients whose interests may conflict with your own. We cannot be certain that we will identify all such situations that exist or may develop and it is difficult for us to anticipate all situations that you might perceive to conflict. We therefore request that you notify us promptly of any potential conflict affecting the Contract of which you are, or become, aware. Where the above circumstances are identified by us or you and we believe that your interests can be properly safeguarded by the implementation of appropriate procedures, we will discuss and agree with you the arrangements that we will put in place to preserve confidentiality and to ensure that the advice and opinions which you receive from us are wholly independent of the advice and opinions that we provide to other clients. Just as we will not use information confidential to you for the advantage of a third party, we will not use confidential information obtained from any other party for your advantage."

(b) Written expression in public policy statements of clarifications of obligations undertaken also appears to be a tool that a member or firm may use to further demonstrate the management of possible conflicts of interest.

(c) To the extent that the matter is not dealt with in the foregoing, clarification of a member's or firm's obligations may also be included in final reports, proposals, etc.

In the engagement letter, public policy statement or contract, the relationship may be clarified by:

(a) Clearly defining the obligations owed to the other party. This may be accomplished through an exclusion clause;

(b) Clearly delineating the rights and duties of all parties; and

(c) Where a conflict is managed in part by a client's informed consent, including provisions that set out the consequences should the client terminate its consent. It might be agreed, for example, that in such circumstances the member or firm would (or would not) be able to continue to act for one of the other parties, and if so, which one.

Step 4: Assess the Effectiveness of a Conflict Management Plan

After choosing the institutional mechanisms that will be relied upon, the member should assess the overall effectiveness of the plan. The onus will be on the member or firm to be able to demonstrate that the institutional mechanisms are effective in protecting confidential client information. In a particular case, the court may not accept the use of institutional mechanisms to manage a conflict. Members must assess the risk of such a finding by a court on a case-by case basis and, where appropriate, obtain legal advice.

When assessing the effectiveness of the selected institutional mechanisms, members should ask the following questions:

- (a) Will the institutional mechanisms work effectively in practice? For example, it may not be possible to obtain the informed consent of two clients as the mere disclosure of the issue to one client might involve the disclosure of confidential information of the other client.
- (b) Are the persons required to perform the work able to remain within a Cone of Silence or behind a Fire Wall for the required period of time?

Step 5: Re-evaluate the Plan During Engagement

A client relationship will often exist for an extended period of time during which the client's interests may change. When in the course of an engagement for a client, conflict or possible conflict with an engagement for another client is discovered, a member or firm should consider the following actions:

- (a) resign from both assignments without disclosure of the detailed reasons if such disclosure would also disclose confidential client information; or with appropriate disclosure of the detailed reasons if confidential client information can be protected;
- (b) obtain informed written consent from both clients to continue their engagements in spite of the conflicts;
- (c) seek the informed written consent of both sides to continue for one side;
- (d) after obtaining the required consent in (b) or (c), use existing institutional mechanisms such as Cones of Silence or Fire Walls, to protect confidential client information in appropriate circumstances.

When the discovery of a conflict occurs while an engagement is in progress, it may be more difficult to then implement institutional mechanisms to protect confidential client information. It will also be difficult to clarify the firm's obligations by indicating that the firm intends to accept engagements for clients whose interests may from time to time conflict with those of existing clients.

If, however, institutional mechanisms such as Cones of Silence or Fire Walls have been in place from the outset of both client assignments, or clients have been informed at the outset of possible conflicts, the task of dealing with new conflicts that arise is made easier.

6 Documentation and Other Considerations

Since problems with the management of conflicts may arise in the future, it is important to document the process by which conflicts are assessed and managed. Documentation will normally include considerations with respect to the identification of conflicts; the assessment of conflicts and the facts considered in making the assessment; the conflict management plan adopted with the reasons the member or firm believes the plan will be effective; and the ongoing assessment of the plan's effectiveness.

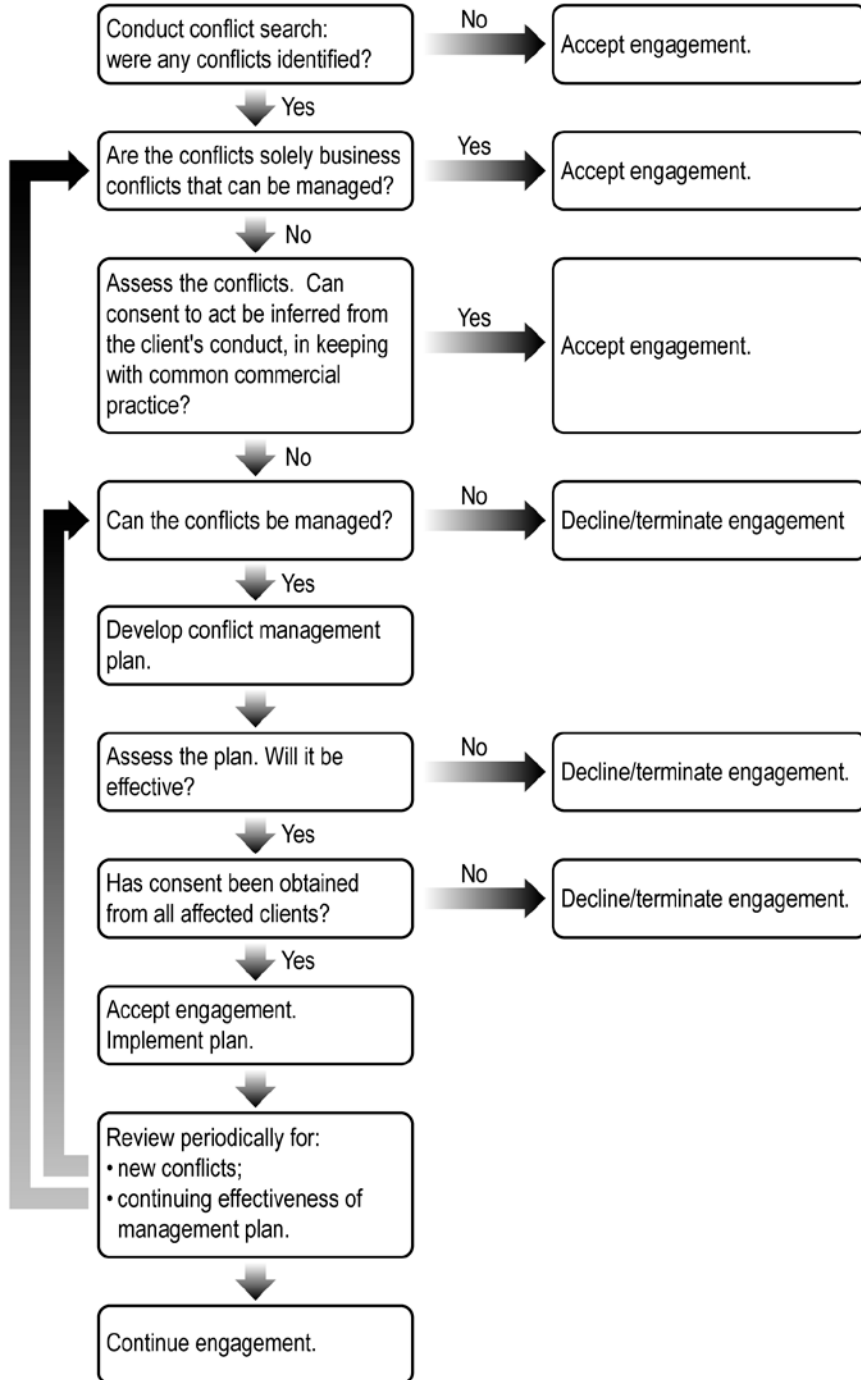
When developing a Conflict Management Approach, the firm must ensure that the Conflict Management Techniques selected are robust enough to demonstrate that the client's interest will be served within the terms of the engagement.

The use of such techniques requires the use of professional judgment since ultimately their effectiveness and acceptability will be judged using the standard of "the expectation of an informed, reasonable observer".

In those areas of practice where relationships or engagements exist for extended periods of time, the question of potential conflicts should be addressed at least annually, perhaps as part of the ongoing client continuance review.

CONFLICT MANAGEMENT DECISION CHART

The process for dealing with conflicts may be illustrated by the following flowchart.



CI 211 – DUTY TO REPORT BREACH OF RULES OF PROFESSIONAL CONDUCT

Rule 211

.1 A member or firm shall promptly report to the Institute any information concerning an apparent breach of these rules of professional conduct, or any information raising doubt as to the competence, reputation or integrity of a member, student, applicant or firm, unless such disclosure would result in

- (a) the breach of a statutory duty not to disclose, or*
- (b) the reporting of information by a member or firm exempted from this rule for the purpose and to the extent specified by Council, or*
- (c) the loss of solicitor-client privilege, or*
- (d) the reporting of a matter that has already been reported, or*
- (e) the reporting of a trivial matter.*

.2 A member or firm required to report under Rule 211.1 and who is engaged, or is in consultation with a view to being engaged, with respect to a civil or criminal investigation need not report to the Institute authorized designated body any information obtained in the course of such engagement or consultation concerning an apparent breach of these rules of professional conduct or any information raising doubt as to the competence, reputation or integrity of a member, student, applicant or firm until such time as

- (a) the client has consented to the release of the information, or*
- (b) the member or firm becomes aware that the information is known to third parties other than legal advisors, or*
- (c) it becomes apparent to the member or firm that the information will not become known to third parties other than legal advisors.*

1 It is in the public interest that a member or firm be required to report to the Institute authorized designated body apparent breaches by another member or firm of the rules of professional conduct. The good reputation of the profession could adversely be affected if such matters were not reported. Rules 211.1 and 211.2 are not intended to require the reporting of trivial matters or minor perceived faults of another member or firm. Each mistake or omission by a member or firm is not necessarily a breach of the rules of professional conduct. In deciding when to report, a member or firm should believe that the matter raises doubt as to the competence, reputation or integrity of another member or firm.

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- 2** Rule 211.1 sets out specific situations where it does not apply. For example, the rule does not apply to disclosure of information obtained
- in the course of a member's employment by an organization, such as a government taxation authority, where there is a legal requirement imposed by statute to maintain the confidentiality of information obtained through this employment;
 - in the member's role as a practice inspector or practice advisor, who has been exempted for the purpose and to the extent specified by Council;
 - in the course of an engagement, such as a litigation support engagement, where disclosure will result in the loss of solicitor-client privilege.
- 3** Under certain circumstances, such as the forensic investigation of a fraud, Rule 211.2 permits the reporting of the matter to be delayed until
- the client has consented to the release of such information, or
 - the information has become known to third parties other than legal advisors, or
 - it becomes apparent to the member or firm that the information will not become known to third parties other than legal advisors.
- 4** Rule 211.2 attempts to strike a balance between the duty to the client and the duty to protect the public interest and maintain the reputation of the profession. Clients may assume that a member or firm will not disclose information without consent, resist the obligation of the member or firm to report and even be reluctant to engage a member or firm because of the reporting obligation. In addition, reporting without the client's knowledge or consent could result in a claim against the member or firm. Thus the client must be informed that while the member or firm will seek consent to report the information, ultimately, if the consent is not forthcoming, the obligation to the public and the profession will prevail and the member or firm will be obliged to report.
- 5** A member or firm reporting a matter does not have to carry out an investigation or reach a decision as to whether the rules of conduct have been breached. However, it is not enough simply to have a suspicion that there has been professional misconduct. What must be reported are the facts as known to the member or firm along with any supporting documentation.
- 6** If a member or firm knows that a matter involving apparent misconduct on the part of another member or firm has come to the Institute's attention, the member or firm does not have a duty to report the matter. The

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member or firm must report if the member or firm knows that certain facts have been concealed, distorted or otherwise not reported.

- 7 Having reviewed Rules 211.1 and 211.2 and this interpretation, a member or firm in doubt as to whether a matter should be reported should consult Institute staff for advice and guidance. In certain circumstances, such as those described in paragraph 4 above, the member or firm should also consider obtaining legal advice.

CI 212.1 - HANDLING OF TRUST FUNDS AND OTHER PROPERTY

Rule 212.1

A member or student who, or a firm that, receives, handles or holds money or other property as a trustee, receiver or receiver/manager, guardian, administrator/manager or liquidator shall do so in accordance with the terms of the engagement, including the terms of any applicable trust, and the law relating thereto and shall maintain such records as are necessary to account properly for the money or other property; unless otherwise provided for by the terms of the trust, money held in trust shall be kept in a separate trust bank account or accounts.

- 1 In this interpretation the term "trust funds" includes all amounts received by a member or firm to be held or disbursed on the instructions of the person from whom or on whose behalf the amounts are received, such person being referred to as "client".
- 2 While it may be prudent to obtain legal advice with respect to complying with the law relating to trusts, the following should assist in understanding the rule:
 - (a) each trust relationship should be documented in writing;
 - (b) trust funds, unless subject to written instructions to the contrary, should be deposited without delay to a separate bank account, a "trust account", which may be an account in the name of a specific client, but should in all cases include in its title the word "trust";
 - (c) withdrawals or disbursements from a trust account should be limited to:
 - (i) funds properly required for payment to or on behalf of the client;
or
 - (ii) funds properly required for or toward payment of the member's or firm's fees for services rendered or disbursements for which a billing has been rendered and approved, preferably in writing, by the client;
 - (d) in the absence of express agreement to the contrary, any interest earned on trust funds should be accounted for to the client;

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- (e) records should be maintained to show clearly trust funds received, paid or held on behalf of clients, clearly distinguishing the funds of each client from those of other clients and from the member's or firm's own funds; and
 - (f) members and firms should establish appropriate safeguards and controls over receipts and disbursements of trust accounts.
- 3 There may be occasions when other property is received in trust in lieu of funds. Appropriate safeguards and controls should be established over these properties including, if applicable, the safekeeping of securities or other negotiable instruments.
 - 4 A member or firm may consider using a lawyer or trust company where amounts are large or the situation is unusual or contentious.
 - 5 If the engagement is one governed by bankruptcy and insolvency legislation, members should refer to the provisions of such legislation and any regulations and directives enacted thereunder.
 - 6 Members or firms acting as executors, administrators or trustees should refer to the independence standards as set out in Rule 204 and the related Council interpretations.

CI 214 - FEE QUOTATIONS

Rule 214

A member or firm shall not quote a fee for any professional engagement unless adequate information has been obtained about the engagement.

- 1 A prospective client may wish to obtain some indication of the fee for the member's or firm's services. A member or firm discussing a possible assignment may not be in a position to quote a fee or fee range without becoming more familiar with the requirements of the client. For example, in an audit assignment it would generally be necessary to become familiar with the prospective client's accounting policies and procedures and internal controls. In an accounting assignment it would generally be necessary to assess the prospective client's books and records and the application of the related accounting policies. Without becoming so familiarized or making an appropriate assessment, it would not be possible to estimate the fee.
- 2 As provided in Rule 205, a member, student or firm should not sign or associate with any letter, report, statement, representation or financial statement which the member, student or firm knows or should know is false or misleading. Accordingly, a member or firm should not make a representation that specific professional services in current or future

periods will be performed for either a stated fee, estimated fee, or fee range if it is likely at the time of the representation that such fees will be substantially increased and the prospective client is not advised of that likelihood.

- 3 A member or firm obtaining work for a fee significantly lower than that charged by the predecessor, or quoted by others, should be aware that there may be a perception that independence, where required, and/or quality of work could be impaired.

Accordingly, a member or firm should be satisfied that a fee quoted to a client for the performance of professional services is sufficient to ensure that:

- independence, where required, will not be impaired; and
- the quality of work will not be impaired and that due care will be applied to comply with all professional standards in the performance of those services.

CI 215 - CONTINGENT FEES

Rule 215

.1 *A member or firm engaged in the practice of public accounting or in a related business or practice shall not offer or engage to perform a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service, where the service is:*

(a) one in respect of which professional standards or rules of conduct require that the member be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity; or

(b) a compilation engagement.

.2 *Rule 215.1 does not apply to a professional service for a fee fixed by a court or other public authority or to a professional service in respect of any aspect of insolvency practice, including acting as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager.*

- .3 *Other than in respect of an engagement described in Rule 215.1, a member or firm engaged in the practice of public accounting or in a related business or practice may offer or engage to perform a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service, provided:*
- (a) the fee arrangement does not constitute an influence, interest or relationship which impairs or, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member or a partner of the member in respect of an engagement described in Rule 215.1(a); or*
 - (b) the fee arrangement is not one which influences, or in the view of a reasonable observer would influence, the result of a compilation engagement performed by the member or a partner of the member for the same client; and*
 - (c) the client has agreed in writing to the basis for determining the fee before the completion of the engagement.*

Introduction

- 1 A member or firm is entitled to charge for professional services such fees as the member or firm considers to be fair and reasonable for the work undertaken. Generally it is prudent to refer to fees and the basis on which they are to be computed in an engagement letter to the client or potential client.

Contingent fees

- 2 When providing a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service ("contingent fee"), a member or firm must bear in mind the requirements of Rules 202, 203, 205 and 206. These rules require a member or firm to perform services with integrity and due care; to sustain professional competence in all functions in which the member practises; not to associate with any letter, report, statement or representation which the member knows or should know is false or misleading; and to comply with the generally accepted standards of practice of the profession
- 3 Rule 215.1 prohibits a contingent fee arrangement where the member or firm providing the service is required to be free of any influence that

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would impair professional judgment or objectivity in respect of the particular engagement. This means that a contingent fee arrangement is not permitted for an assurance or specified auditing procedures engagement. In addition, a compilation engagement may not be performed on a contingent fee basis.

- 4 A member or firm also must ensure that a contingent fee arrangement in a client engagement does not, in the view of a reasonable observer, create an influence which would impair professional judgment or objectivity with respect to another engagement for the same client which requires objectivity on the part of the service provider. For example, a member may be seen to have compromised professional judgment or objectivity with respect to an audit where the member in giving an opinion may be seen to be supporting a material amount which is reported in the client's financial statements and upon which a contingent fee for the member or the member's firm is based.
- 5 The following examples of engagements undertaken on a contingent fee basis are provided as guidance to assist members and firms in determining whether their professional judgment or objectivity may be compromised with respect to the types of engagements for which objectivity is required by the rules of professional conduct or would be seen to influence the result of a compilation engagement.

Examples of engagements which, if undertaken on a contingent fee basis, would not normally be seen to impair professional judgment or objectivity with respect to another engagement for the same client which requires objectivity on the part of the service provider (such as an audit or review of financial statements) are:

- commodity tax refund claims;
- assisting with tax appeals and preparing notices of objection to tax assessments and reassessments; and
- executive search services.

Examples of engagements which, if undertaken on a contingent fee basis, may be seen to impair professional judgment or objectivity with respect to another engagement for the same client which requires objectivity on the part of the service provider (such as an audit or review of financial statements) are:

- valuation engagements which involve the expression of a professional opinion;
- assisting with the purchase or sale of all or part of a business;
- financing proposals, the success of which is dependent, in whole or in part, upon the client's financial statements or the client's future oriented financial information;
- litigation support and forensic investigations which use financial statements or other financial information of the client or result in

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reports which impact on or bear a relationship to the client's financial statements;

- business interruption insurance claims; and
- re-engineering or efficiency studies, the results of which could materially impact on the client's financial statements or other financial information.

6 The examples in paragraphs 4 and 5 are not intended to be exhaustive or conclusive in determining whether a particular engagement may be undertaken on a contingent fee basis. A member must always exercise professional judgment in concluding whether a particular engagement may be undertaken on a contingent fee basis in accordance with Rule 215.3.

7 If the application of Rule 215.1 prohibits an engagement from being provided on a contingent fee basis a member or firm is not precluded from having regard at the time of billing to criteria which include:

- (a) the level of training and experience of the persons engaged in the work;
- (b) the time expended by the persons engaged in the work;
- (c) the degree of risk and responsibility which the work entails;
- (d) the priority and importance of the work to the client;
- (e) the value of the work to the client; and
- (f) any other circumstances which may exist (e.g. fees fixed by a court or other public authority, fees in insolvency work and the administration of estates and trusts which, by statute or tradition, are often based on a percentage of realizations and/or assets under administration).

Value billing should not be used, however, to justify what is in substance an otherwise inappropriate contingent fee arrangement.

8 Members and firms are cautioned that professional engagements may be subject to standards of other professional bodies or organizations which must be considered in determining whether contingent fees are appropriate for a particular engagement.

Definition

- 9 For the purpose of Rule 215.3, "partner" means a member's partner, whether or not a member of the Institute, in either the member's public accounting practice or a related business or practice, and, for greater certainty, includes any person who is not a member but who is a partner or shareholder in the related business or practice.

CI 216 - PAYMENT OR RECEIPT OF COMMISSIONS

Rule 216

Other than in relation to the sale and purchase by a member or firm of an accounting practice, a member or firm engaged in the practice of public accounting or a student while employed by a member or firm engaged in the practice of public accounting shall not directly or indirectly pay to any person who is not an employee of the member or firm or who is not a public accountant a commission or other compensation to obtain a client, nor shall the member, student or firm accept directly or indirectly from any person who is not a public accountant a commission or other compensation for a referral to a client of products or services of others.

- 1 A member or firm may be asked by an investment dealer or insurance broker to act as agent or sub-agent for the sale of securities or the placement of insurance. A member or firm may, at the same time be receiving fees from clients for services which include advice on the utilization of surplus funds or on insurance coverage. There is bound to be a conflict of interest between this position and that of acting as agent or sub-agent for the sale of securities or the placement of insurance. Acceptance of a commission, finder's fee or other remuneration from third parties for such agency services would be incompatible with the principle of objectivity which is fundamental to our profession.

CI 217.1 – ADVERTISING AND PROMOTION

Rule 217.1

A member or firm may advertise or seek publicity for the member's or firm's services, achievements or products and may seek to obtain new engagements and clients by various means, but shall not do so, directly or indirectly, in any manner

- (a) which the member or firm knows, or should know, is false or misleading or which includes a statement the contents of which the member or firm cannot substantiate;*
- (b) which makes unfavourable reflections on the competence or integrity of the profession or any member or firm; or*
- (c) which otherwise brings disrepute on the profession.*

Advertising and promotion

- 1 It is in the public interest and in the interest of all members of the Institute that members and firms be allowed to advertise or otherwise promote services available and the basis of fees charged. Members should be able to receive publicity, identifying them as members of the Institute, in areas which reflect their competence and knowledge, in matters which are within the scope of activities of members of the Institute, and in matters of civic or public interest. Advertising and publicity should contribute to public respect for the profession and thus to the professional standing of all members. It is the responsibility of the member or firm to ensure that any promotional material produced by or under the control of the member or firm is factual, and that any commentary is not misleading.
- 2 As guidance to members and firms, the following outlines what is acceptable conduct in a number of areas. Unless specifically noted, this interpretation also applies to members otherwise engaged or employed, and to firms or corporations engaged in a related business or practice. The objective is to ensure that advertising or other promotional communication is accurate and factual.
- 3 Members and firms that engage public relations, recruiting or other agents are responsible for ensuring that no activity for which the agent is engaged contravenes the rules. While there are matters in which the use of skilled assistance can be advantageous, it should be recognized that there is an inherent danger of contravention of the rules and that close control must be exercised to avoid breaches.
- 4 A member or firm may be the subject of, or may be referred to in, any bona fide news story (including interviews and commentaries) or may publish any work (including any professional paper, report, article, etc.) related to the member's or firm's professional services, provided that the member or firm uses all best efforts to ensure that none of the contents of such news story or work violates the requirements of Rule 217.

False or misleading advertising and promotion

- 5 It is not appropriate for members and firms to use advertising or promotional communications or media, including electronic media, that bring disrepute on the profession.
- 6 Members and firms should ensure, at all times, that any public reference (in promotional material, websites, stationery, reports, etc.) to themselves or their services is accurate. The following are examples of false or misleading references:
 - (a) any implication that the practising unit is larger than it is, such as by use of plural descriptions or other misleading use of words;

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- (b) any implication that a person is a partner of a firm, when the person is not;
 - (c) any implication that a person is entitled to practise as a public accountant, if the person is not licensed as a public accountant;
 - (d) any reference to representation or association which is not in conformity with the facts;
 - (e) the use of obsolete or out of date information;
 - (f) any reference to particular services of any person or firm where the person or firm is not currently able to provide those services;
 - (g) any statement that the practice is restricted to one or more functions, if assignments are accepted in other practice functions;
 - (h) any statement that may create false or unjustified expectations as to the results of an engagement;
 - (i) the use in the letterhead of any member or practising office of the name of a non-member which is not clearly and separately identified.
- 7** Any reference to fees which is intended for the information of the public (including prospective clients) should not be misleading. The following are examples of false or misleading fee references:
- (a) fee information if service at the fee specified will not be available on an ongoing basis for a reasonable length of time;
 - (b) a quotation of specific fee information if service at the fee specified is conditional upon the acceptance by the client of other services, unless such condition is disclosed;
 - (c) a "rate per hour" or fee or fee range for specified services, which does not give a reasonable description of the services included;
 - (d) fee information which quotes an unqualified "average rate", fee or fee range for services when a particular assignment might likely be billed at a significantly higher amount;
 - (e) fee information, using terms such as "from \$X" where fees, rates or ranges are not sufficiently representative of those normally charged.
- 8** Members and firms should ensure that any controllable public references to them, their services or accomplishments, whether written or oral, are clear and factual.

Unfavorable reflections

- 9** Since any member or firm may be able to offer services similar to those offered by others, it is not appropriate for any member or firm to claim superiority with respect to the competence or integrity of any other member or firm.

Use of the term "specialist"

- 10** Individuals who have earned the designation "Chartered Accountant" have demonstrated a high level of education and professional experience. To hold oneself out as a specialist is to imply possession of particular skills, talents and experience.
- 11** Specialization must be distinguished from expertise. Expertise implies extraordinary knowledge about a specific subject - no matter how broad or how narrow. Specialization implies a concentration of professional skills developed and applied over a meaningful period of time. A person may be an expert without being a specialist.
- 12** Members designating themselves, their practising offices or related businesses or practices as specialists must be prepared to substantiate the claim. Failure to provide advice to a specialist standard after accepting an engagement to do so may have serious legal consequences.
- 13** A member seeking identification as a specialist should be designated as a specialist by the appropriate CICA Alliance for Excellence or Accredited Organization or should meet the following minimum criteria:
- a) the member should be recognized as such by peers, clients and business associates;
 - b) a significant percentage of the member's time over a sustained period should have been spent in the specialty;
 - c) the member should have completed courses and/or successfully completed appropriate examinations, if applicable, for the specialty;
 - d) the member should continue professional development relevant to the specialty, such as attendance at courses, teaching or writing; and
 - e) the member should continue to devote a significant percentage of time to the specialty.
- 14** Improperly claiming specialist status may violate one or more of the following rules:

- Rule 201.1, which requires members and firms to act in a manner that will maintain the good reputation of the profession;
- Rule 202, which requires members to perform their services with integrity and due care;
- Rule 203.1, which requires members to sustain their professional competence in all functions in which they practise;
- Rule 210, which requires members and firms to avoid conflicts of interest; and
- Rule 217.1(a), which requires members to refrain from making statements that cannot be substantiated.

15 Firms intending to identify themselves as specialists should meet the following minimum criteria:

- a) the firm should be recognized as such by peers, clients and business associates;
- b) a significant percentage of the firm's time over a sustained period should have been spent in the specialty;
- c) firm members should have completed courses and/or successfully completed appropriate examinations, if applicable, for the specialty;
- d) firm members should continue professional development relevant to the specialty, such as attendance at courses, teaching or writing; and
- e) the firm should continue to devote a significant percentage of time to the specialty.

CI 217.2 - SOLICITATION

Rule 217.2

Notwithstanding Rule 217.1, a member or firm shall not, either directly or through a party acting on behalf of and with the knowledge of the member, solicit, in a manner that is persistent, coercive or harassing, any professional engagement.

- 1** Solicitation is an approach to a client or prospective client for the purposes of offering services. The approach may be made in person, through direct mail (including fax or e-mail) or via a third party such as a telemarketer. Regardless of the method used, the approach must comply with the rules which govern integrity, conflict of interest, payment of commissions and advertising or which otherwise regulate members and firms.

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- 2 Communication with a prospective client should cease when the prospect so requests either directly to the member or firm or through the Institute. Any continued contact will be regarded as harassment, which is contrary to the rule.
- 3 Participation in a trade or a financial services show is not prohibited by the rules. The conduct of the member or firm at the show must be in accordance with the rules and the follow up of contacts made at the show should be in accordance with Paragraphs 1 and 2.
- 4 The distribution of technical information such as a tax letter to prospective clients and others is not prohibited.
- 5 Members and firms may serve the interests of the public and other members of the Institute by presenting educational and informational seminars and may distribute invitations to attend seminars and provide related informational material. Seminars may be advertised as permitted by Rule 217.1. Such advertising may invite the public to request brochures, letters or other descriptive or informational material from the members or firms responsible for the seminar. Members and firms may arrange, promote, present or otherwise be responsible for such seminars, with or without a fee, subject to the rules.
- 6 A member or firm participating in a seminar arranged for, or promoted by, a non-member shall ensure that any reference to the member or firm at the seminar and in its promotion complies with the rules.

Clientele of a deceased member

- 7 When a member who is a sole proprietor dies, the member's executors should be provided a reasonable opportunity to arrange for transfer of the deceased member's clients to another member or firm. The Institute may be able to assist the estates of deceased members in such circumstances. It is recognized that, in some cases, clients may require immediate service and may not be able to await the orderly disposal of the practice. Any member or firm who is approached to take over the account of a prospective client who had been served by a deceased member should notify the executor upon assuming the account.

CI 217.3 – ENDORSEMENTS

Rule 217.3

A member or firm may advertise or endorse any product or service of another person or entity that the member or firm uses or otherwise has an association with, provided the member or firm has sufficient knowledge or expertise to make an informed and considered assessment of the product or service. However, in doing so

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- (a) *the member or firm must act with integrity and due care;*
- (b) *the member or firm must be satisfied that the endorsement*
 - (i) *is not false or misleading or does not include a statement the contents of which the member or firm cannot substantiate,*
 - (ii) *does not make unfavourable reflections on the competence or integrity of the profession or any member or firm, and*
 - (iii) *does not otherwise bring disrepute on the profession; and*
- (c) *when associating the CA designation with an endorsement, the member or firm must conduct sufficient appropriate procedures to support the assertions made about the product or service.*

1 “Endorsement” means

- (a) public promotion, support, sponsorship, recommendation, guarantee, sanction or validation of any product or service of another person or entity; or
- (b) public indication or implication that the member either
 - (i) uses a product or service of another person or entity, or
 - (ii) has an association with a product or service of another person or entitythat is of a nature that has enabled the member or firm to formulate an opinion or belief as to the quality of the product or service or the benefits to be derived by the purchasers or users of the product or service; or
- (c) consent, including by acquiescence, to the use of the member's or firm's name in connection with any of the activities described in (a) or (b).

Providing a WebTrust™ or other assurance service does not constitute an endorsement of the client's products or services.

- 2 When endorsing a product or service that the member or firm uses in business or professional practice, the member or firm should first make an appropriate investigation or assessment of the product or service so as to be able to express an opinion or state a belief about it.
- 3 When endorsing a personal product or service, the member or firm should have sufficient familiarity or acquaintance with the product or service to make an informed and considered decision about it.

- 4 When endorsing any product or service, a member or firm must take care to ensure that the endorsement does not or would not, in the view of a reasonable observer, impair independence with respect to an engagement that requires independence.

CI 218 - RETENTION OF DOCUMENTATION AND WORKING PAPERS

Rule 218

A member or firm shall retain for a reasonable period of time such working papers, records or other documentation which reasonably evidence the nature and extent of the work done in respect of any professional engagement.

- 1** Cases may arise where a member or firm may be required to substantiate procedures carried out in the course of an assignment. If the files do not contain sufficient documentation to confirm the nature and extent of the work done, the member or firm concerned may well have great difficulty in showing that proper procedures were in fact carried out. The importance of adequate documentation cannot be over-emphasized; without it, the member's or firm's ability to outline and defend professional work is seriously impaired.
- 2** There is an obligation to keep the working papers for a reasonable period of time. Unfortunately, it is not possible to give an all-encompassing guideline as to what is reasonable. What is reasonable varies with the circumstances. One of the problems is that an action alleging negligence arises, not when the work alleged to be negligent is done, but when the damage caused by the alleged negligence becomes known or should become known to the person or entity harmed. Working papers should not be destroyed until legal advice has been obtained with respect to the limitation periods in force in the member's or firm's jurisdiction.
- 3** Further, a member or firm should retain documents for a period of time to properly service clients. A general guideline would be:
 - (a) a period of ten years, during which all records are maintained; and
 - (b) a longer period of time, perhaps indefinitely, or the actual time period where required specifically by statute, for all useful files, information and records which may assist the member to properly service clients. Such useful files, information and records could include:
 - financial statements
 - agreements, contracts and leases
 - investment/share capital information
 - written opinions
 - tax files and assessment notices
 - detailed continuity schedules for such items as fixed assets and future income taxes
 - other files, information and records as appropriate.

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- 4** Members and firms may find it helpful to take reasonable steps to segregate information that is property of the client (“client information”) from information that is proprietary to the firm (“proprietary information”) or to ensure that they have the ability to easily segregate such client information. The client may choose to engage another accountant in the future, or access to the client information may be demanded through litigation discovery or other legal means. Therefore, it is in the interest of the member or firm to be able to provide client information without also disclosing proprietary information. Accordingly, client information, including books and records, general ledgers, account groupings, account compositions, continuity schedules and similar client information should either be maintained separately or be readily separable from audit or review programs and working papers, tax review documentation and other proprietary information.
- 5** When the member or firm maintains the client’s books and records on behalf of the client, it will be particularly helpful if such client books and records are maintained separately from documentation related to any other service that the member or firm may provide. Copies of the books and records should be provided to the client regularly.

CI 302 - COMMUNICATION WITH PREDECESSOR

Rule 302

- .1 A member or firm shall not accept an engagement with respect to the practice of public accounting or the public practice of a function not inconsistent therewith, where the member or firm is replacing another member, firm or other public accountant recognized by statutory authority in Ontario, without first communicating with such person or firm and enquiring whether there are any circumstances that should be taken into account which might influence the decision whether or not to accept the engagement.*
- .2 An incumbent member or firm shall respond promptly to the communication referred to in Rule 302.1.*
- .3 A member or firm responding to a communication pursuant to Rule 302.2 shall inform the possible successor if suspected fraud or other illegal activity by the client was a factor in the member's or firm's resignation, or if, in the member's or firm's view, fraud or other illegal activity by the client may have been a factor in the client's decision to appoint a successor.*

Changes in professional appointments

- 1** The purpose of the rule is to protect a potential successor from accepting an appointment before that member has knowledge of the circumstances under which the previous accountant's services were discontinued. Knowledge of these circumstances might well influence that member against accepting the engagement. The recommended procedure outlined below should be followed.
- 2** When a member or firm has been asked by a prospective client to accept an engagement it is recommended that the client be advised that the incumbent should be notified of the proposed change by the client. The member or firm should then enquire of the incumbent whether there are any circumstances that should be taken into account which might influence the decision whether or not to accept the appointment. No work should be commenced on the account until the member or firm has communicated with the incumbent, except that in the client's interest, acceptance of the offered appointment should not be unduly delayed through the failure of the incumbent to reply, if every reasonable effort has been made to communicate with the incumbent.
- 3** The incumbent must respond promptly to a communication of this nature. If there are no circumstances of which the member or firm should be made aware, a simple response to this effect is all that is necessary. If, on the other hand, the incumbent is aware of circumstances that should

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be taken into account which might influence the decision whether or not to accept the appointment, the incumbent should first consider the question of confidentiality. In cases other than those to which Rule 302.3 applies, if it appears that the circumstances cannot be disclosed because of confidentiality, the response to the successor should state that there are, in the opinion of the incumbent, circumstances which should be taken into account, but that they cannot be disclosed without the consent of the client.

- 4** If there are circumstances as contemplated by Rule 302.3 the existence of such circumstances should be communicated. However, the response should state that details cannot be disclosed without the consent of the client. The incumbent should state only what he or she believes to be true and should take care not to make imputations against a client or individuals connected with it which he or she can have no reason for believing to be true. To do otherwise may result in the incumbent being found to have acted maliciously and therefore exposed to an action for defamation. While circumstances may be matters of public record, the incumbent must still consider whether confidentiality precludes the disclosure of the details to the successor. Where confidentiality is in doubt, or if responding pursuant to Rule 302.3, obtaining legal advice should be considered.
- 5** The successor should also enquire of the incumbent whether there is any ongoing business of which the successor should be aware, in order to ensure that the client's interests are protected. On the part of the incumbent, there must be readiness to cooperate with the successor, recognizing that the client's interests are paramount whether or not there are fees owing to the incumbent by the former client.
- 6** Members and firms should be cognizant of the provisions of any federal and provincial legislation, including securities legislation regulating changes in professional appointments or requiring notification of such changes to incumbents.
- 7** The attention of members and firms is drawn to the provisions of various federal and provincial statutes, and to any regulations, guidelines or policy pronouncements issued pursuant to such statutes, which place requirements on the acceptance of audit appointments. These include securities legislation and related pronouncements, such as national policies issued by the Canadian Securities Administrators, the provisions of statutes governing financial institutions, and the audit appointment provisions of the *Canada Business Corporations Act and the Business Corporations Act (Ontario)*.

CI 303 - CO-OPERATION WITH SUCCESSOR ACCOUNTANT

Rule 303

- .1 A member or firm shall upon written request of the client and on a timely basis, supply reasonable and necessary information to the member's or firm's successor. Such co-operation is required with any successor accountant, including a non-member.*
- .2 A predecessor member or firm on an engagement shall co-operate with the successor on the engagement. The predecessor shall transfer promptly to the client or, on the client's instructions, to the successor, all property of the client which is in the predecessor's possession. Such property shall be transferred in the medium in which it is maintained by the predecessor, or such other medium that is mutually agreeable, that will facilitate a timely and efficient transfer which best serves the client's interests. Ordinarily, when electronic copies of the property of the client are readily available, the client's interests will be best served when such information is provided as electronic data, rather than in printed form, provided that supplying the information in such form will not violate licensing, copyright or similar legal agreements or proprietary rights.*

- 1** When a client decides, for any reason, to change from one practitioner to another, the change should be facilitated on the basis of the following fundamental assumptions:
 - (a) the client's interests be placed ahead of the interests of the member or firm;
 - (b) the client is free to have work performed by the practitioner of choice; and
 - (c) professional courtesy and co-operation be maintained in complying with the client's wishes.
- 2** A member or firm should supply reasonable information to the successor about the client. Where the time and inconvenience in giving the information to the successor is not significant there should normally be no charge for this work.
- 3** A reasonable request for information related to the client includes an opportunity for the successor to discuss with the predecessor the following:
 - (a) the client's accounting policies and consistency of application;
 - (b) the work carried out by the predecessor with respect to material balances in the client's financial statements; and

- (c) the financial statement groupings and account balance composition (for example, deferred income taxes) where the client does not have the information.

Members and firms are also reminded that the *CICA Handbook – Assurance* includes requirements with respect to obtaining audit evidence related to opening balances. Professional courtesy dictates that the predecessor should co-operate with the successor for the purpose of meeting this requirement through discussion and review of working papers. In addition, the client’s interests are likely to be best served when the predecessor co-operates as fully as possible with successors for this purpose. Reasonable opportunity to review and discuss working papers does not preclude the use of appropriate waivers or releases. However, appropriate waivers or releases should not include requirements for confidentiality which would contravene the successor’s obligation to report breaches by another member pursuant to Rule 211 or prevent the successor from otherwise properly serving the best interests of the client.

- 4 Notwithstanding the fact that the best interests of the client are served by co-operation between accountants in the transfer of client information and the provision of other reasonable information necessary to meet professional requirements, Rule 303 is not intended to require the transfer of certain information, and accordingly members and firms are not expected to supply copies of audit or review programs and working papers or tax review documentation. Ordinarily, predecessors are not expected to supply copies of more than the previous year’s financial statements and applicable tax returns, unless the member or firm is remunerated for time and expenses to do so.
- 5 Property of the client does not include information that is proprietary to the firm, such as audit programs and working papers, review documentation, software or other proprietary material or information.
- 6 The medium that facilitates a timely and efficient transfer may vary depending on the nature of the engagement and the nature of the property of the client. For greater clarity and without limiting the general meaning of “property of the client”, such property includes original transaction documents (cheques, receipts, invoices, for example), banking records, ledgers and similar records. It would also ordinarily include tax returns and information related to financial statement groupings, account balance composition and continuity schedules that have been prepared by the predecessor accountant for the client’s benefit. In addition, it includes any of the foregoing or other property of the client that is readily available in electronic form where the client does not also have an electronic copy of the records or information.
- 7 “Property of the client that is readily available in electronic form” is not intended to include electronic information that cannot be easily segregated

from proprietary information of the member or firm. Basic financial information such as trial balances, lead sheets and continuity schedules should always be provided, but need not be provided electronically if they are incorporated into software that includes audit or review programs and working papers or tax review documentation. Accordingly, members and firms are not required to provide client information electronically in every case.

- 8** Council Interpretation 218(4) includes guidance on facilitating the separation of information that is property of the client from proprietary information of the firm. Such separation of information is recommended to facilitate the ease with which a predecessor can co-operate with a successor to properly serve the client's interests.

CI 401 - PRACTICE NAMES

Rule 401

A member or firm shall engage in the practice of public accounting, or in the public practice of any function not inconsistent therewith, only under a name or style which

- (a) is not misleading,*
- (b) is not self-laudatory,*
- (c) does not contravene professional good taste, and*
- (d) has been approved in a manner specified by the Council.*

- 1** It is in the interest of all members of the Institute that members and firms be allowed to conduct their practices under names which reflect their individual preferences and which are appropriate for their particular marketplaces. This interpretation sets out guidance for members and firms in the selection of practice names and in the identification with other professional service organizations.

- 2** Members, firms and related businesses or practices should ensure, at all times, that any information contained in their practice names about themselves, their firms or their services is accurate. The following are examples of practice names containing inappropriate information:

- (a) any implication in the practice name that the practising unit is larger than it is, such as by use of plural descriptions or other misleading use of words. The use of "and Company" or similar wording in a practice name is permitted, if it is not misleading with respect to the total number of full-time equivalent persons providing professional services within the practice;

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- (b) any implication in the practice name that a member is a partner or a former partner of a practice, when the member is not;
 - (c) any reference to representation or association which is not in conformity with the facts;
 - (d) any reference in the practice name to particular services provided where the practice is not currently able to provide those services;
 - (e) any statement in the practice name that may create false or unjustified expectations as to the results of a particular engagement.
- 3** When a member, firm or related business or practice participates in an organization, whose members practise public accounting internationally, with professional engagements accepted and reports or opinions issued in the international name, the member, firm or related business or practice may refer to such international name on professional stationery and in name plates, directory listings, announcements and brochures by using the term "internationally", or "international firm". General references to "offices throughout the world" or "offices in principal cities throughout the world" imply broad coverage and should be used only where the international organization's members practise public accounting in many countries.
- 4** A member, firm or related business or practice may have an arrangement with another person or organization whereby one acts for the other in a particular location, and the assignment, by agreement, may be in the name of one of them. In such circumstances it is appropriate, if desired, for the member, firm or related business or practice to refer to the fact of such representation by a suitable reference to the location and the name and/or address and professional designation of the representative, with a description of the relationship as being "represented by". If representation arrangements exist in a number of locations it may not be possible to give full details of each, and in such case it would be appropriate, if desired, to refer to the fact of representation in the particular locations, specifying the locations individually.
- Generally references such as "represented throughout the world", which may not be factual and may be misleading, should be avoided. In any public reference to representation, the representative must be a person or organization practising public accounting.
- 5** Members, firms and related businesses or practices may associate themselves with international organizations which do not practise public accounting but which consist of members who are practising public accounting and which exist primarily to provide their members with access to international public accounting services. In these cases it is appropriate to make public reference on professional stationery and elsewhere to

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membership in a bona fide international organization by using a term such as "a member of (name), an international association of accounting firms". Terms such as "internationally" or "international firm" should not be used. General references such as "members throughout the world" should be used only where there are in fact members of the organization in many countries. References such as "represented throughout the world" should be avoided unless they are factual and not misleading.

- 6** Members, firms and related businesses or practices should ensure that their practice names or styles are not self-laudatory and do not claim superiority over any other member, firm or related business or practice. Care should be taken in using the word "The" in the firm name so that it does not imply exclusivity.

Practice names that might tend to lower public respect for the profession should not be used. Care should also be exercised with respect to the use of acronyms.

- 7** In general, approval will be given to non-personal firm names unless they are misleading or contravene professional good taste. However, there may be certain other considerations which will affect the approval decision. A practice name that is so similar to that of another firm registered in the same area as to cause confusion in the minds of the public may not be approved. Consideration will also be given to cultural sensitivities in deciding whether to approve a non-personal firm name.
- 8** The registrar, in his or her discretion, is permitted to be flexible in transitional situations. For example, a member engaged in the practice of public accounting as a sole proprietor or, where permitted, an incorporated professional, may apply to the registrar for permission to practise for a specified period of time under both the member's approved name and, with the predecessor's written authorization, the name used by a predecessor sole proprietor or firm.

Other situations where transitional flexibility may be granted include those where a previously approved firm name becomes inappropriate. An example of such a situation would occur when, due to the departure of a partner, the firm name becomes misleading with respect to the size of the firm. In such cases, the member or firm may apply to the registrar for permission to continue to use the name for a specified period of time.

CI 404 – OPERATION OF MEMBERS' OFFICES

Rule 404

.1 Each office in Ontario of any member or firm engaged in the practice of public accounting shall be under the personal charge and management of a member who shall normally be accessible to meet the needs of clients during such times as the office is open to the public.

.2 A member or firm shall not operate a part-time office except in accordance with such terms and conditions established by Council.

- 1** The purpose of the rule is to ensure that clients' public accounting needs will be met in each instance by properly qualified professional personnel.
- 2** A part-time office is a practising office which is operated by a member who is practising out of that office on less than a full-time basis. Such an office is one where the member having personal charge and management is not normally accessible to meet the needs of clients throughout the usual business hours of the community in which the office is located.
- 3** In order to comply with Rule 404.2 a part-time office should only be open to the public when the member-in-charge of that office is normally accessible to meet the needs of clients. Further, the advertising and other promotion of a part-time office, in order not to be misleading, should indicate the times when the office is open or that it is open by appointment.

FORMER COUNCIL INTERPRETATIONS

Former Rule of Professional Conduct 204 and Council Interpretation 204 are applicable in respect of engagements relating to reporting periods that end on or before December 31, 2003.

CI 204 - OBJECTIVITY STANDARDS

Introduction

- 1 Rule 204.1 deals with the requirement for objectivity in assurance and specified auditing procedures engagements. Rule 204.2 deals with objectivity standards for insolvency practice engagements. Rule 204.3 deals with other engagements and the requirement to disclose where the appearance of objectivity may be lacking.
- 2 This interpretation provides guidance to members and firms on the basic principles that govern objectivity. It is not a comprehensive statement on the concept of an objective state of mind. By the very nature of objectivity, it is not possible to address every situation that a member may come across.
- 3 Whether or not objectivity exists, or is seen to exist, in a given case must be interpreted using professional judgment. If, in the circumstances described in this interpretation or those of a similar nature, the indication is that a lack of objectivity exists, a member, or the member's firm, would ordinarily be expected to resign immediately from, or not to accept, an engagement unless the matter can be resolved.
- 4 This interpretation sets out how, in the Council's opinion, a reasonable observer might view certain situations in the application of Rules 204.1, 204.2 and 204.3. The reasonable observer is a hypothetical individual who has knowledge of the facts, which the member knew or ought to have known, and who applies judgment objectively with integrity and due care. Members should also refer to the Foreword to the Rules which provides the rationale for establishing the reasonable observer principle as being fundamental to the profession's objectivity requirement.
- 5 Members and firms are cautioned that the test of objectivity is to be judged in the context of both real and perceived impairments. Quite often it is the perception of an impairment that poses the greatest challenge. In all situations, members and firms should reflect upon the wording of the applicable rule to ensure compliance with its spirit and intent.
- 6 If, after considering the rules and this interpretation, members are still uncertain as to the decision to be made, they are encouraged to discuss the matter with partners, colleagues or Institute staff. Members and firms may also request the rulings of the professional conduct committee for specific cases.

- 7 Members and firms should be cognizant of any relevant legislation which may preclude a member from accepting or continuing an engagement. Members and firms are cautioned that the provisions of federal and provincial legislation under which corporations and various other enterprises are incorporated and/or governed may impose somewhat different requirements in respect of objectivity, often referred to in the legislation in terms of independence. Members must satisfy both the requirements of any governing legislation and the Institute's rules of professional conduct.

Definitions

For the purposes of these interpretations of Rules 204.1 and 204.2

- (a) "associate" means:
- (i) an entity directly or indirectly controlled by a client;
 - (ii) an entity which directly or indirectly controls a client;
 - (iii) an entity which directly or indirectly invests in a client, or is invested in by a client, in circumstances where the investor should, in accordance with the *CICA Handbook*, use the equity method to account for that investment and where the amounts relating to the investee reflected in the annual financial statements of the investor are material;
- and an entity includes a body corporate, an unincorporated body, a trust, an individual, a partnership and a joint venture.
- (b) "assurance engagement" means an assurance engagement as contemplated in the *CICA Handbook*;
- (c) "close relative" means non-dependent individuals who are a member's children, step-children, brothers, sisters, grandparents, parents or parents-in-law, and includes the spouse of any of these individuals;
- (d) "immediate family" means any one or more of an individual's spouse and those dependent on the individual or the individual's spouse, whether related or not;
- (e) "partner" means a member's partner, whether or not a member of the Institute, in either the member's public accounting practice or a related-function practice, and, for greater certainty, includes any person who is not a member but who is a partner or shareholder in the related-function practice. References to a trustee in bankruptcy, receiver, receiver-manager, agent for secured creditors or liquidator would apply equally to a company incorporated to perform these functions;

(f) "specified auditing procedures engagement" means an engagement contemplated in Section 9100 of the CICA Handbook;

(g) "spouse" means an individual's non-estranged spouse or other individual with whom the individual has a spousal-equivalent relationship.

CI 204.1 - ASSURANCE AND SPECIFIED AUDITING PROCEDURES ENGAGEMENTS

Rule 204.1 Objectivity -- assurance and specified auditing procedures engagements

A member who engages or participates in an engagement

(a) to issue a written communication under the terms of any assurance engagement, or

(b) to issue a report on the results of applying specified auditing procedures

shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity.

1 A member may not be complying with Rule 204.1 if the member or the member's partner engages, or participates in an engagement, to provide an assurance engagement report or a report on the results of applying specified auditing procedures for a client and any of the following circumstances are present:

(a) the member, a partner, or the immediate family of either, holds, directly or indirectly, through a trust or otherwise, any financial interest, including shares, bonds, debentures, mortgages, notes, advances or other instruments of investment in a client or any of its associates;

(b) the member, a partner, or the immediate family of either, is indebted to a client or any of its associates, except as noted in paragraphs 6 and 7;

(c) the member, a partner, or the immediate family of either, is a member of a group of investors such as a private mutual fund or an investment club which holds any financial interest in the client or any of its associates;

(d) the member or a partner is a
(i) member of the governing body, or officer, or
(ii) employee

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of a client or any of its associates;

(e) the immediate family of the member or a partner is a member of the governing body or officer of the client or any of its associates;

(f) the member, a partner, or the immediate family of either, except as contemplated by paragraph 8 hereof, serves on the governing body of an organization which holds a financial interest in a client or any of its associates;

(g) the immediate family of the member or a partner holds any position where they have the right or responsibility to exercise significant influence over the financial or accounting policies of the client or any of its associates;

(h) the member, a partner, or the immediate family of either, is a trustee in bankruptcy, liquidator, receiver or receiver/manager of the client or any of its associates;

(i) the member, a partner, or the immediate family of either, is an executor, administrator or trustee, or has the right or responsibility to exercise significant influence over the financial or accounting policies

(i) of the client estate, trust or charitable foundation;

(ii) of an estate, trust or charitable foundation which holds a financial interest in the client that is material either to the estate, trust or foundation or to the client;

(iii) of a pension or profit-sharing plan of the client;

(j) a member's employee assigned to the engagement, or a person in such employee's immediate family, has a relationship with the client or any of its associates of the type contemplated by (a) through (i) inclusive, except (d)(ii) with respect to immediate family; or

(k) the member or a partner becomes entitled, directly or indirectly, as payment for professional fees, to shares or other instruments of investment in the client or any of its associates.

Where the member, a partner, or the immediate family of either, has been in any of the positions outlined in (d) through (i) above in respect of a client, an appropriate time period should pass before the member or a partner accepts an assurance or specified auditing procedures engagement for the client or any of its associates. Where a member's employee or the employee's immediate family has been in any of the positions outlined in (d) through (i) above except (d)(ii) with respect to immediate family, an appropriate time should pass before the employee is assigned to an assurance or specified auditing procedures engagement

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for the client or any of its associates. The length of this time period will depend on the particular circumstances, including the extent and nature of prior management decisions, and the responsibility therefor, of the member, partner, employee, or the immediate family of any of them. Consideration should be given to the significance such management decisions and other circumstances could appear to have, for example, on the reporting on financial statements or on financial or other information in following periods. Members are cautioned that certain statutes prescribe time periods which must elapse before audit services may be provided.

- 2** In respect of close relatives, a member should consider the extent of personal and business relationships existing between the close relative and each of the member and the client. The relationships of the close relative to the member and the client should be considered from the viewpoint of the reasonable observer. A member may not be complying with Rule 204.1 if the member participates in a significant portion of an engagement and the member has a close relative who

(a) has a financial interest in the client that is material to either the close relative or the client and the member had knowledge of the financial interest; or

(b) is indebted to the client and such debt is material to either the close relative or the client and the member had knowledge of the indebtedness, except as permitted in paragraphs 6 and 7; or

(c) has the right or responsibility to exercise significant influence over the financial or accounting policies of the client or any of its associates; or

(d) is an executor, administrator or trustee of

(i) the client estate, trust or charitable foundation,

(ii) an estate, trust or charitable foundation which holds a financial interest in the client that is material to either the estate, trust or foundation or to the client, or

(iii) a pension or profit-sharing plan of the client.

In complying with Rule 204.1, a member is not obliged to make direct enquiry about financial interests of a close relative but the member should not disregard information which is known or ordinarily accessible to the member or the member's partner.

Economic Dependence on a Client

- 3** If a member or firm is seen as being economically dependent upon a client or group of related clients, the member or firm is unlikely to have the

appearance of objectivity. The facts in each case should be considered from the viewpoint of a reasonable observer.

Some situations where the potential exists for the appearance of economic dependence, subject to other relative circumstances of the particular case, are:

- a significant portion of the member's or firm's fees are derived from one client or a group of related clients;
- a significant amount is owing to the member or firm by a client or a group of related clients;
- a significant amount of new business is regularly referred to the member or firm by a client or group of related clients.

Activities specifically permitted

Provision of Other Services

- 4 A member ordinarily would not be in breach of Rule 204.1 solely because the member provides other services to the client, in addition to carrying out an assurance or specified auditing procedures engagement, provided that the following conditions are satisfied:
- the client accepts responsibility for any financial statements as the client's own; and
 - the member does not assume the role of employee or management and ensures that responsibility for management decisions remains entirely with management; and
 - the member does not, as a result of providing other services, develop a relationship with the client which impairs or would be seen by a reasonable observer to impair the member's integrity and objectivity; and
 - the member performs the assurance or specified auditing procedures engagement in accordance with generally accepted standards of practice of the profession.

In assessing information relative to an assurance engagement, the member must avoid any bias or predisposition that may result from advice given to the client in a consulting capacity or from other services provided. Independent consultation with third parties may be helpful on occasion.

Public Mutual Funds, Social Clubs, Religious Organizations

- 5 Notwithstanding paragraphs 1 and 2 above, a member ordinarily would not be in breach of Rule 204.1 solely because
- (a) the member, a partner, an employee assigned to the engagement, or the immediate family of any of them, has a financial interest in a **public mutual fund** which has a financial interest in a client of the member or the member's partner which is material to the client, provided:

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- (i) neither the member nor the member's partner engages with that public mutual fund to provide an assurance or specified auditing procedures engagement; and
 - (ii) the aggregate of the investments of the public mutual fund in the client or clients is not material to the public mutual fund.
- (b) the member, a partner, an employee assigned to the engagement, or the immediate family of any of them, holds qualifying shares in a **social club**, such as a golf club, curling club, co-operative or similar organization, where the shareholding is a prerequisite of club membership, provided:
- (i) the assets of the organization cannot by virtue of the organization's bylaws be distributed to the individual club members other than in circumstances of forced liquidation or expropriation, unless there is an undertaking in writing with the organization to forfeit entitlement to such distributed assets;
 - (ii) none of the member, a partner, an employee assigned to the engagement, or the immediate family of any of them:
 - (a) is a member of the governing body or an officer of the organization;
 - (b) has the right or responsibility to exercise significant influence over the financial or accounting policies of the organization or any of its associates; or
 - (c) exercises any right derived from membership to vote at meetings of members of the organization; and
 - (iii) the club member cannot dispose of the membership for gain, or
- (c) the member, a partner, an employee assigned to the engagement, or the immediate family of any of them, belongs to a **religious organization**, for which the member performs an assurance or specified auditing procedures engagement, provided that the member, a partner, the employee assigned to the engagement, or the immediate family of any of them
- (i) is not a member of the organization's governing body;
 - (ii) does not have the right or responsibility to exercise significant influence over the financial or accounting policies of the organization or any of its associates.

Commercial Transactions

- 6** A member may perform an assurance or specified auditing procedures engagement for a client with whom the member, a partner, an employee of the member assigned to the engagement, or the immediate family of

any of them, has carried out a **commercial transaction**, provided that the terms of the transaction are the same as would be granted to other customers in the normal course of business.

Financial Institutions

7 Notwithstanding paragraphs 1 and 2 above, a member ordinarily would not be in breach of Rule 204.1 solely because the member performs an assurance or specified auditing procedures engagement for any **financial institution**, including a

- bank,
- trust company,
- credit union or caisse populaire,
- insurance company,
- finance or acceptance company, or
- brokerage firm

in or from which the member, a partner, any of the member's or partner's employees who are assigned to the engagement, or the immediate family of any of them, has deposited or borrowed funds or purchased annuity contracts or insurance policies in the normal course of business, provided that the terms of the transaction are the same as those granted to other customers of the institution in the normal course of business. This interpretation assumes the absence of any specific statutory prohibition.

In some cases, a member, a partner, or a member's employee assigned to the engagement, or the immediate family of any of them, as a borrower or depositor referred to above, may be required to hold shares in the institution, or as a depositor may be entitled to vote at annual or special meetings of the institution. The holding of such qualifying shares or entitlement to vote ordinarily would not disqualify a member from being engaged by the institution to provide an assurance or specified auditing procedures engagement but the right to vote should not be exercised.

Serving on Governing Bodies of Organizations

8 A member ordinarily would not be in breach of Rule 204.1 or 204.2 solely because the member, a partner, an employee assigned to the engagement, or the immediate family of any of them, serves on the governing body of a commercial corporation or other organization which holds a financial interest in a client which has engaged the member or partner to provide an assurance or specified auditing procedures engagement, provided:

(a) the holding of such interest does not result in the corporation or the organization beneficially owning more than 10% of the shares of the client or exercising control or direction over more than 10% of the votes attached to the shares of the client, and

(b) the individual serving on the governing body refrains from participating in discussions and decisions relating to investments in that client.

However, where the corporation or other organization holds a material financial interest in, or has significant business transactions including loans or other similar investments or indebtedness with, or is a major supplier or customer of the client, the appearance of objectivity impairment may arise and the view of the reasonable observer should be considered. The member should exercise professional judgment in these circumstances.

Trusts, Estates, Custodianships or Guardianships

9 A member ordinarily would not be in breach of Rule 204.1 solely because the member, a partner, an employee assigned to the engagement, or the immediate family of any of them, or a close relative, has a beneficial interest, or holds a financial interest, in a **trust, estate, custodianship or guardianship** which holds a financial interest in a client which has engaged the member to provide an assurance or specified auditing procedures engagement, provided that

(a) the beneficial interest in the investments is not material to either the holder or the client, and

(b) no one or more of the member, the partner, an employee assigned to the engagement, or the immediate family of any of them, or a close relative, control, directly or indirectly, the investment policies of the trust, estate, custodianship or guardianship.

Notwithstanding the above, a member should not establish, or use or permit to be used, a trust as a means to hold investments the member or his or her immediate family would otherwise be prohibited from holding because of client relationships.

Solely because a member's close relative has a material beneficial interest of the type described above, or has direct or indirect control over the investment policies of the trust, estate, custodianship or guardianship holding such investments, the member's partner may not be precluded from accepting the engagement.

Relations with Retired Partners

10 A member ordinarily would not be in breach of Rule 204.1 solely because a retired partner

- holds a direct or indirect financial interest in, or
- holds a position or an appointment with, or
- is otherwise in a position to influence significantly

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a client of the member's public accounting practice, provided the retired partner retains no right to influence the conduct of the public accounting practice.

Where a reasonable observer would perceive that the retired partner retains a close association with such public accounting practice, by such means as the retention of voting rights or continuing to service clients through the public accounting practice in a consulting or other capacity, Rule 204.1 may apply to the member as if the retired partner was not retired from the public accounting practice.

11 - 50 Reserved for future use

CANADA ELECTIONS ACT

Introduction

- 51** The Canada Elections Act (in paragraphs 51 to 59 inclusive, "the Act") requires the filing of audited returns by the chief agents of registered parties (Section 44(1)) and the official agents of candidates (Section 228). Each return is to be reported on by an auditor who is a member in good standing of any corporation, association or institute of professional accountants and includes a firm, every partner of which is such a member.

Ineligibility provision - statutory

- 52** Sections 42(2) and 226(3) of the Act list a number of persons (hereinafter referred to as "ineligible persons") who cannot act as auditors for a registered party or candidate; these are:
- (a) a returning officer, deputy returning officer or assistant returning officer;
 - (b) a candidate;
 - (c) an official agent of a candidate;
 - (d) a registered agent of a registered party.
- 53** While Section 226(3) permits any partner or firm with which any ineligible person is associated to act as the auditor for any candidate, the Section prohibits an ineligible person from participating in the audit examination of a candidate's records or in the preparation of the audit report. There is no similar restriction placed upon the auditor of a registered party.

Council extension of ineligibility provisions

- 54** Without wishing to extend the statutory prohibitions unduly, Council considers that there are additional relationships to those spelled out in the Act, which could impair, or appear to impair, an auditor's objectivity. This interpretation, therefore, sets out Council's view on unacceptable relationships, in respect of audits under the Act, encompassing both those prohibited by the statute and those unacceptable professionally.
- 55** Council recognizes that too detailed a proscription, coupled with the widespread involvement of members, as citizens, in the political process, could make it almost impossible for the audit provisions of the Act to be given practical effect. Accordingly, this interpretation seeks to cover only the more obvious relationships which the profession might consider unacceptable. Too narrow an interpretation could, in view of the many conceivable conflicts of interest, make it almost impossible for members to serve the community's needs.

Audit appointments under the Canada Elections Act

Definitions

- 56** "Candidate", "registered agent", "registered party", "official agent", "during an election" have the meanings given to them in Section 2 of the Act.

Audit of a candidate

- 57** Council believes that a member may not be complying with Rule 204.1 if the member were to act as auditor of a candidate as well as being

(a) a paid worker during an election for any candidate or any registered party;

(b) a volunteer worker during an election for that candidate or the registered party of that candidate where

(i) the member exercises any function of leadership or direction in that candidate's or that party's campaign organization, or

(ii) the member carried on any significant function involving the raising, spending or custody of that candidate's or that party's campaign funds;

or if an immediate family member, or a partner is

(c) a returning officer, deputy returning officer, assistant returning officer or election clerk in the electoral district of that candidate or is the candidate, official agent of that candidate or a registered agent of that candidate's registered party;

(d) a paid worker during an election for that candidate or that candidate's registered party;

(e) a volunteer worker as described in (b)(i) above, during an election, for that candidate or the registered party of that candidate.

Council believes that where a member is an "ineligible person" in respect of a particular candidate, the firm of which that member is a partner may not act as auditor of that candidate.

As noted in paragraph 53, the ineligible persons described in Section 226(3) of the Act may not participate in the audit examination of any candidate's return. Council believes that, as an extension of this, a member who could not act as auditor for a candidate because of any of the relationships detailed in paragraphs 57(a) and (b) above, should not participate in the audit examination of a candidate's return.

Audit of a registered party

- 58** In addition to the statutory prohibitions set out in Section 42(2) of the Act, the Council believes that a member may not be complying with Rule 204.1 if the member were to act as auditor of a registered party if the member, or an immediate family member, or a partner is a paid worker or volunteer worker who exercises any function of leadership or direction in that party's organization or carried on any significant function involving the raising, spending or custody of that party's funds.

Conclusion

- 59** Generally, members contemplating acting as auditors for registered parties or candidates should be alert to any circumstances, not described in this interpretation, which may place them in the position of impairment of objectivity or where an appearance of impairment might be presented. This type of question tends to arise, for example, where a donation of cash or of professional services is made. Members, as citizens, have the same responsibility to be involved in the political process as other citizens; such involvement may include financial support of a registered party or candidate by a member, the member's immediate family or the member's partner. Council believes that the making of a financial contribution or the donation of professional services does not, of itself, necessarily create an impairment of objectivity, in these particular circumstances.

Members should recognize, however, the need to apply judgment to the question of the amount of any such contribution and must be satisfied that any such contribution does not in fact impair their audit objectivity or appear to impair it.

Council considers it of paramount importance that a member or a firm accepting an appointment under the Act makes such acceptance known to all partners so as to avoid any conflict arising within the provisions of the Act concerning ineligible persons.

CI 204.2 - INSOLVENCY ENGAGEMENTS

Rule 204.2 Objectivity -- insolvency engagements

A member who engages or participates in an engagement to act in any aspect of insolvency practice, including as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager, shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity.

Member acting as trustee under the Bankruptcy and Insolvency Act, or as liquidator, receiver or receiver/manager.

- 1 Rule 204.2 deals with objectivity in insolvency practice. This interpretation sets out how, in Council's opinion, a reasonable observer might be expected to view certain situations related to insolvency practice.
- 2 A member, a partner, the member's employees and their respective immediate families should not acquire directly or indirectly in any manner whatsoever any assets under the administration of the member, provided that any of the foregoing may acquire assets from a retail operation under administration of the member where those assets are available to the general public for sale and that no special treatment or preference over and above that granted to the public is offered to or accepted by the member, a partner, the member's employees and their respective immediate families.
- 3 A member shall not permit himself or herself to be placed in a position of conflict of interest and, in keeping with this principle, shall not accept any appointment:
 - (a) which is prohibited by law, or
 - (b) as a receiver, receiver-manager, agent for a secured creditor, or liquidator, or any appointment under the Bankruptcy and Insolvency Act, except as an inspector, in respect of any insolvent person or corporation, where the member is, or at any time during the immediately preceding two years was:
 - (i) related to such person or corporation, or
 - (ii) the auditor or accountant of such person or corporation.

For purposes of this Interpretation the term "accountant" means any member who has prepared unaudited financial statements in accordance with Section 8200 of the *CICA Handbook*.

- 4 A member should not permit himself or herself to be placed or remain in a position where a conflict of interest may exist, or may appear to exist, without making full disclosure to, and obtaining the written consent of, all interested parties and, in keeping with this principle, should not accept any appointment
 - (a) as trustee under the *Bankruptcy and Insolvency Act* where the member has already accepted an appointment as receiver, receiver-manager, agent of a secured creditor, liquidator, trustee under a trust indenture issued by the bankrupt corporation or by any corporation related to the bankrupt corporation, or on behalf of any person related to the bankrupt without having first made disclosure of such prior appointment.

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The member should inform the creditors of the bankrupt of the prior appointment as soon as reasonably possible;

(b) as receiver, receiver-manager, agent for a secured creditor or on behalf of any person related to the bankrupt where the member has already accepted an appointment as trustee under the *Bankruptcy and Insolvency Act* without first obtaining the permission of the inspectors of the bankrupt estate. Where inspectors have not been appointed at the time that the second appointment is to be taken, the member should obtain the approval of the creditors of the bankrupt of having taken the second appointment as soon as reasonably possible; and if the second appointment is taken before obtaining the approval of the creditors, it should be taken subject to their approval;

(c) as receiver, receiver-manager, agent for a secured creditor or trustee under the *Bankruptcy and Insolvency Act* in respect of any corporation where the member is, or at any time during the immediately preceding two years was, the trustee (or related to such trustee) under a trust indenture issued by such corporation or by any corporation related to such corporation without first obtaining the permission of the creditors secured under such trust indenture. Upon the acceptance of any such appointment as trustee under the *Bankruptcy and Insolvency Act*, the member should inform the creditors of the bankrupt corporation of the prior appointment as (or relationship to) the trustee under a trust indenture issued by the bankrupt corporation or by any corporation related to the bankrupt corporation as soon as reasonably possible;

(d) as receiver, receiver-manager, agent for a secured creditor, liquidator of an insolvent company under the *Winding-Up Act*, or trustee under the *Bankruptcy and Insolvency Act* in respect of any corporation where the member is related to an officer or director of such corporation; or

(e) as receiver, receiver-manager, agent for a secured creditor, or trustee under the *Bankruptcy and Insolvency Act* in respect of any person or corporation where the member is a creditor, or an officer or director of any corporation that is a creditor, of such person or corporation unless the relationship is sufficiently remote that the member can act with complete objectivity.

- 5 For purposes of paragraphs 3 and 4, persons are related to each other if they are defined as such under Section 4 of the *Bankruptcy and Insolvency Act* and the two-year time period commences at the date of the last audit report or the last review engagement report.
- 6 A member engaged in insolvency practice should ensure there are no relationships with retired partners which may be seen to impair the member's objectivity. Refer to paragraph 10 of the interpretations in respect of Rule 204.1.

CI 204.3 – OBJECTIVITY - DISCLOSURE OF IMPAIRMENT OF OBJECTIVITY

Rule 204.3 Objectivity -- Disclosure of impairment of objectivity

Where a member engaged in the practice of public accounting, or in a related business or practice, provides a service not subject to the requirements of Rules 204.1 or 204.2, such member shall disclose any influence, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair the member's professional judgment or objectivity, and such disclosure shall be made in the member's written report, notice to reader or other written communication accompanying financial statements or financial or other information and the disclosure shall indicate the nature of the influence or relationship and the nature and extent of the interest.

Professional services, other than assurance or specified auditing procedures and insolvency engagements

- 1 Rule 204.3 requires the disclosure of any influence, interest or relationship which, in respect of professional services other than those specifically provided for in Rules 204.1 and 204.2, would be seen by a reasonable observer to impair the member's professional judgment or objectivity. Members should be guided by Council Interpretation 204.1 when determining whether they would appear to be objective with respect to particular engagements.
- 2 Such disclosure is required whether or not any written report or other communication is provided and should indicate the nature of the influence or relationship and the nature and extent of the interest. Any written communication concerning or accompanying financial statements or financial or other information must include such disclosure.
- 3 Objectivity is not required for compilation engagements. Where the provider of the compilation service may be seen to be lacking objectivity, the disclosure requirement of Rule 204.3 applies.
- 4 Tax return services may require disclosure in respect of some of the information filed with the return. If the return is simply the assembling and reporting of information provided by the taxpayer, then the member involved has simply processed that information and disclosure should not be necessary.
- 5 Members are cautioned that disclosure under Rule 204.3 does not relieve members from their obligation to comply with the rules of professional conduct and in particular Rules 201, 202, 205 and 206.