Institute of Chartered Accountants of Alberta

E

COMBINED RULES OF PROFESSIONAL CONDUCT AND RELATED GUIDELINES

TABLE OF CONTENTS TO THE COMBINED RULES AND GUIDELINES

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 the conduct of members and students;
- ethical conflict resolution;
- fiduciary duty;
- personal character and ethical conduct;
- application of the rules;
- principles governing the responsibilities of public accounting firms and other registrants; and
- interpretation of the rules.

The rules of professional conduct, comprehensive in their scope, practical in application and addressing high ethical 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 hallmark of a profession that there is a voluntary assumption, by those who comprise it – the members – 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 also 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 firmly establish the profession’s social usefulness.

To protect the public and to maintain the reputation of the profession, the rules apply, as appropriate, to registrants.

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

<u>Professional Behaviour</u>

> *Registrants 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, registrants are expected to avoid any action that would discredit the profession.

While there are business considerations involved in the creation and development of 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 professional colleagues with the courtesy and consideration he or she would expect to be accorded by them.

Integrity and Due Care

Registrants perform professional services with integrity and due care.

Registrants are expected to be straightforward, honest and to deal fairly 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 in compliance 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 in compliance with developments in the professional standards and pertinent legislation in all functions where a member practices, or is relied upon, because of the member's calling.

Confidentiality

Registrants 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 and specific authority, any such information. Nor will they exploit such information for 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 registrant 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

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

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

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

As well, the rules specifically require that a registrant, 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 registrant 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 registrant 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 the registrant's objectivity and professional judgement. Only then can public confidence in the objectivity and integrity of the registrant 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 registrant knew or ought to have known, and applies judgement objectively with integrity and due care.

Ethical conflict resolution

Circumstances may arise where a registrant 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 registrant 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 registrant should determine the appropriate course of action that is consistent with the fundamental principles and rules identified as being pertinent. The registrant should also weigh the consequences of each possible course of action. If the matter remains unresolved, the registrant should consult with another appropriate person within the firm or employing organization for help in obtaining resolution.

Where a matter involves a conflict with, or within, an organization, a registrant 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 registrant 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 registrant may wish to obtain guidance on ethical issues without breaching confidentiality from the Institute or legal advisors. For example, a registrant may have encountered a fraud, the reporting of which could breach a registrant's responsibility to respect confidentiality. The registrant 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 registrant should, where ethically possible, refuse to remain associated with the matter creating the conflict. The registrant 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 employing organization in a manner consistent with the rules of professional conduct.

<u>Fiduciary duty</u>

Registrants have duties to their clients that arise from the nature of the relationships with the clients. Registrants 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 registrant 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 registrant; any lack of sophistication of the client; the vulnerability of the client to the influence of the registrant; and, the discretionary authority, if any, granted by the client to the registrant. The court will also consider the extent of the disclosure to the client of the registrant's interest in the matter and whether the registrant has put oneself 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 audit firm provides non-audit advisory services to the audit client and when the criteria for a fiduciary relationship exist, the audit firm may be found to be a fiduciary. A practicing registrant is more likely to be found to be a fiduciary in professional engagements such as forensic or investigative accounting and investment advisory services.

Registrants must also note that registrants who are employees may, depending on the particular facts and circumstances, have a fiduciary relationship with their employers.

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, fiduciaries must not place themselves in any position where their interests conflict with that of the client. Nor can fiduciaries profit from their 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 registrants 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 registrant and a client. The Rules of Professional Conduct require that registrants 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, registrants 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 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 registrants, 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 service being provided. Some rules have particular relevance to members engaged in a public accounting practice. The rules and guidance in this Foreword also apply, as appropriate, to students and, as discussed below, to firms.
- Registrants not engaged in a public accounting practice must observe these rules except where the wording of any rule makes it clear that it relates specifically to a public accounting practice or there is a specific exception made in a particular rule.
- The term "professional services" also applies to registrants who are not engaged in a public accounting practice. In this context, it includes any activities of a registrant where the public or the registrant's associates are entitled to rely on registration by the Institute as giving the registrant particular competence and requiring due care, integrity and an objective state of mind.
- Registrants 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 the registrant's behalf, acts which, if carried out by the registrant, would place the registrant in violation of the rules.
- Registrants who reside outside Alberta 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, the registrant will consider the ethical conflict guidance set out above.

Principles governing the responsibilities of public accounting 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 judgement, 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;
- 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 the firm is engaged;

- the firm is identified with 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;
- the conduct that breaches the rules was authorized, initiated, implemented or condoned by the firm prior to or at the time it takes place;
- the conduct that breaches the rules is condoned or concealed by the firm after it learns of it;
- 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 charges 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. **[2009]**

100 GENERAL

101 COMPLIANCE WITH ACT, REGULATIONS, BYLAWS AND RULES

All registrants shall comply with the Act, regulations, bylaws 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 of the Institute under the Act, regulations or bylaws. ***[2001]***

102 MATTERS TO BE REPORTED TO THE INSTITUTE

102.1 *Illegal Activities*

A registrant shall inform the Institute within 21 days 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;

d) convicted of an indictable offence or similar offence outside of Canada;

e) found guilty of violating the provisions of any securities legislation, or having entered into a settlement agreement with respect to such conduct;

f) found guilty of a violation of the provisions of any tax legislation that involves, explicitly or implicitly, dishonesty on the part of the registrant, or having entered into a settlement agreement with respect to such conduct; or

g) discharged absolutely or upon condition after pleading guilty to or being found guilty of an offence described in (a), (b), (c), (d), (e) or (f) above. ***[2013]***

102.2 *Other Provincial Institutes*

Members or firms, as applicable shall promptly inform the Institute after having, in relation to a disciplinary or similar process of any 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 the conduct referred to in (a), or*

c) *resigned from membership in that provincial institute, where permitted to do so, in order to resolve a disciplinary matter.* ***[2013]***

102.3 *Other Professional Regulatory Bodies*

Registrants 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 the conduct 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.* ***[2013]***

102.4 *Other Regulatory Bodies*

Registrants 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 circumstances where there was reliance on membership in or association with any 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 the conduct referred to in (a).* ***[2013]***

GUIDELINES TO 102 – MATTERS TO BE REPORTED TO THE INSTITUTE

1. Rules 102.1(a), 102.1(c), 102.1(d), 102.1(e), 102.2 and 102.3 identify certain matters which must be reported to the Institute by registrants.

2. Rules 102.1(b), 102.1(f), 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 judgement 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(f), 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 judgement to decide whether they implicitly involve dishonesty and must be reported.

c) Compliance with Rule 102.4 will also require the exercise of professional judgement 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 any provincial Institute.

3. Registrants faced with a decision as to whether a matter is reportable are expected to exercise professional judgement and to be prepared to demonstrate how professional judgement 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 registrants 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 diminishes the good reputation of the profession and its ability to serve the public is subject to scrutiny. Accordingly, registrants 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, indictable offences and 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 registrant 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 registrant 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 registrant repeats a criminal offence that might not otherwise be reportable such repeat offences must be reported to the Institute.

7. Members and firms may hold membership in or registration with more than one provincial institute. Students are ordinarily registered with only one 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 one provincial institute, the member or firm must report that finding or settlement agreement to 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 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 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 registrant should exercise professional judgement 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, 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. Registrants 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. **[2013]**

103 FALSE OR MISLEADING APPLICATIONS

A registrant or any person who applies to become a registrant shall not sign or become associated with any letter, report, statement or representation relating to the application for registration which was known, or should have been known, by the registrant or applicant to be false or misleading. ***[2001]***

104 REQUIREMENT TO COOPERATE

104.1 *A registrant shall co-operate with the regulatory processes of the Institute as set out in parts 3, 4, 5 and 6 of the Act.* ***[2011]***

104.2 *A registrant shall:*

a) promptly reply in writing to any communication from the Institute in which a written reply is specifically required;

b) promptly produce documents when required to do so by the Institute; and

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. ***[2011]***

GUIDELINES TO 104 – REQUIREMENT TO COOPERATE

1. The regulatory processes of the Institute include registration or reregistration, practice review, complaints inquiry, discipline hearings and appeals of any decisions resulting from the aforementioned processes. **[2011]**
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. **[2011]**
3. The requirement for prompt written replies and production of documents contemplates the establishment of a reasonable timeframe to respond to the request. Requests for reasonable extensions will not normally be refused, however, requests without adequate grounds will be refused. **[2011]**
4. Requirements for attendance in person may be modified by agreement between the Institute and the registrant to provide reasonable accommodations. However, requests for alternative accommodations without adequate grounds will be refused. **[2011]**

5. Subject to the agreement of the Institute, the requirement to attend in person may include attendance by teleconference, videoconference or other means. **[2011]**

6. The requirement to co-operate with the Institute includes a requirement to co-operate with officers, staff, volunteers or agents acting on behalf of the Institute in matters described in Rules 104.1 and 104.2. **[2011]**

105 HINDRANCE, INAPPROPRIATE INFLUENCE AND INTIMIDATION

105.1 *A registrant shall not, directly or indirectly, hinder or attempt to 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.* ***[2011]***

105.2 *A registrant shall not threaten or intimidate or attempt to threaten or intimidate a complainant, witness, or any other person related to a regulatory matter of the Institute nor shall a registrant threaten or intimidate officers, staff, volunteers or agents of the Institute acting on behalf of the Institute****.*** ***[2011]***

GUIDELINES TO 105 – HINDRANCE, INAPPROPRIATE INFLUENCE AND INTIMIDATION

1. Rule 105.1, which prohibits hindering, attempts to hinder 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 registrants from taking appropriate steps to advocate for or defend themselves or another registrant before the appropriate regulatory decision-making body within the Institute or the courts. Further, another registrant 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 registrant. **[2011]**

2. Without limiting the generality of the rule, in particular, when a complaint has been made against a registrant, the requirements of Rule 105.2 apply to any communication that the registrant 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. **[2011]**

200 STANDARDS OF CONDUCT AFFECTING THE PUBLIC INTEREST

201 REPUTATION OF THE PROFESSION

Maintenance of Reputation of the Profession

201.1 *A registrant shall at all times act in a manner which will maintain the good reputation of the profession and its ability to serve the public interest.* ***[2001]***

Certificate of Conviction or Certified Copy of Indictment

201.2 *There is a rebuttal presumption that a registrant has failed to maintain the good reputation of the profession and its ability to serve the public interest when the registrant is charged under Rule 201.1 on account of any matter referred to in Rule 102.1(a), (d), (e), and (f) and a certified copy of a document which provides proof of guilt in respect of such matters is filed with a discipline tribunal. For purposes of this Rule, documents which provide proof of guilt include a certificate of conviction, order, decision, settlement agreement which includes an admission of guilt or other similar relevant document.* ***[2013]***

201.3 *There is a rebuttable presumption that a registrant has failed to maintain the good reputation of the profession and its ability to serve the public interest when a registrant is charged under Rule 201.1 on account of a matter referred to in Rule 102.2 where the resolution of the matter include:*

a) A finding of guilt by, or a settlement agreement with, another provincial institute, and the registration of the registrant was suspended or canceled or a resignation was accepted in order to resolve a disciplinary matter, or the registrant had restrictions placed on practice rights; or

b) A finding of guilt by, or an admission of guilt by the registrant to, another provincial institute that Rule 201.1 was breached by the registrant;

and a certified copy of the order, decision, settlement agreement or other relevant document from the other provincial institute is filed with a discipline tribunal. ***[2013]***

Advocacy Services

201.4 *Before accepting an engagement to act as an advocate, a registrant shall ensure that:*

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

b) the advocacy role of the registrant 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 registrant without failing to comply with the independence standards required by Rule 204 for other services which the registrant has engaged to provide.* ***[2004]***

GUIDELINES TO 201 - REPUTATION OF PROFESSION

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, practicing law, acting as an employment agency, and handling trust monies. **[1993]**
2. A registrant should be cognizant of and comply with the provisions of any federal and provincial legislation regulating activities in the various service areas of the public practice of the registrant. **[2001]**
3. A registrant not engaged in public practice should be cognizant of and comply with the provisions of any legislative requirements pertaining to the registrant’s activities. **[2001]**
4. In Alberta, some of the legislation which could have application to the activities of a registrant is noted below.

Reports to Law Society

a) The Law Society of Alberta requires a public accounting firm to report on the results of applying certain procedures set out in the form of a report; a public accounting firm requiring clarification or guidance concerning these requirements should contact the Law Society of Alberta.

Employment Agency Business Licensing Regulation to the Fair Trading Act

b) The Fair Trading Act and regulations thereto, requires that those businesses that secure persons for employment, secure employment for persons or evaluate or test persons for employers who are seeking employees must hold a license under the Act to engage in that business. Registrants undertaking such assignments should ascertain whether they should be licensed under the Fair Trading Act.

Real Estate Act

c) The *Real Estate Act* contains the prohibition that “No person shall:

   i) trade in real estate as a real estate broker,

   ii) deal as a mortgage broker, or

   iii) advertise himself or in any way hold himself out as a mortgage broker or real estate broker

   unless that person holds the appropriate authorization for that purpose issued by the Council” (The Real Estate Council of Alberta).

A real estate broker is defined as a person who receives consideration or other compensation from another for trades in real estate (which includes a business).

Registrants undertaking assignments relating to the purchase or sale of a business should ascertain whether they should be authorized under the *Real Estate Act*.

Securities Act

d) The *Securities Act* provides that no person or company shall trade in a security or an exchange contract or act as an underwriter or adviser unless they are registered with the Executive Director of the Alberta Securities Commission. Registrants undertaking such assignments should ascertain whether they should be registered under the *Securities Act*. **[2001]**

Criticism of a Professional Colleague or Other Public Accountant

5. In the course of professional work, a registrant 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. **[2003]**
6. Unless limited or restricted in writing by the terms of the engagement, it is recommended that the registrant 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. **[2003]**
7. Guidelines 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. **[2003]**
8. Guideline 6 does not apply to a registrant bringing to the attention of the Institute any apparent breach of the rules or any instance involving doubt as to the competence, reputation or integrity of a registrant or applicant, as required by Rule 211. **[2004]**
9. Reserved for future use. **[2003]**

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 an 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 judgement in each case. **[1993]**

11. On occasion, the question arises of the duty of a public accounting firm appointed auditor of an entity, when the auditor 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. **[2001]**

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 fulfills 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. **[1993]**

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 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 the auditor's duty to report upon. **[2001]**

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. **[1993]**

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. **[1993]**

16. When an auditor is asked to resign or is contemplating resignation, it would be prudent for the auditor to consider obtaining legal advice. **[1993]**

Advocacy Services

17. When providing an advocacy service, a registrant 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 practices. Rule 205 requires a registrant to not associate with any letter, report, statement or representation which the registrant knows or should know is false or misleading. **[2004]**

18. A registrant should ensure that the advocacy services does not constitute the practice of law. **[2001]**

202 INTEGRITY, DUE CARE AND OBJECTIVITY

202.1 Integrity and Due Care

A registrant shall perform professional services with integrity and due care. ***[2010]***

202.2 Objectivity

A registrant shall perform professional services with an objective state of mind. ***[2010]***

GUIDELINE TO 202 – INTEGRITY AND OBJECTIVITY

1. A person who acts with honesty and truthfulness and whose actions, values and principles are consistent is described as having integrity. **[2010]**

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 judgement. The judgement 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 registrant from acting as an advocate on behalf of others for whom the registrant performs professional services or a business owned by the registrant. **[2010]**

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 judgement and act with integrity whether in public practice or elsewhere. **[2010]**

Professional Services

4. The term "professional services" applies to all registrants whether or not they are engaged in a public accounting practice. It includes those of the registrant'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 11 of this Guideline, the requirement to perform professional services with an objective state of mind does not preclude a registrant from acting as an advocate on behalf of others for whom the registrant performs professional services or a business owned by the registrant. **[2010]**

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 registrant will not subordinate professional judgement to the will of others. When a possible ethical conflict arises because a more senior person in an organization overrides the professional judgement of a junior registrant, the more junior registrant should refer to the ethical conflict resolution guidance in the Foreword to the Rules of Professional Conduct. **[2010]**
6. A registrant 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. **[2010]**

Registrants outside of public accounting

7. Employment with an organization outside a public accounting practice requires a registrant 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 registrant to act objectively and with integrity, to avoid conflicts of interest and to exercise professional judgement in keeping with the guidance outlined in paragraph 5 of this Guideline. **[2010]**
8. When a registrant is employed outside of a public accounting practice, there is a responsibility to further the legitimate aims of the employing organization. In promoting the organization's position, the registrant should not make or be

associated with false or misleading statements or statements which are not adequately supported. **[2010]**

9. Registrants 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. **[2010]**

Objectivity and advocacy

10. The requirement for an objective state of mind does not preclude a registrant 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 registrant's effectiveness as an advocate in these cases is based on professional credibility, which is sustained by objectivity and integrity in addition to competence. However, a registrant 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 and compromise credibility. Such circumstances may pose an unacceptable risk of impairing the reputation of the registrant and client and/or employer. In those circumstances, the registrant should consider whether it is appropriate to perform the service. **[2010]**

11. A registrant who acts as an advocate for a client should refer to Rule 201.4. In such situations, the registrant should ensure that the advocacy role is apparent, and that statements made are not false or misleading and have adequate support. **[2010]**

Public Accounting Practice

12. In addition to the general requirement to maintain an objective state of mind applicable to all professional services, a registrant in a public accounting practice 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 13 below); and
    (b) Conflicts of interest (Rule 210). **[2010]**

13. The requirement to be objective is not the same as the requirement to be independent pursuant to Rule 204. When a registrant 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 judgement or objectivity. Accordingly, in addition to being objective, a registrant in a public accounting 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 registrant can express a conclusion without bias, conflict of interest or the undue influence of others. Rule 204 and the related Guidelines provide specific guidance on the independence requirements in these circumstances. **[2010]**

Continuing assessment of objectivity and integrity

14. A registrant 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 integrity. In the absence of specific rules, standards or guidance, a registrant 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 registrant 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 registrant's own mind, an experienced member should be consulted. **[2010]**

15. A public accounting 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. **[2010]**

203 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 practices or is relied upon because of the member's calling. **[2001]**

GUIDELINE TO 203 – SUSTAINING PROFESSIONAL COMPETENCE

16. Refer to Rule 206

204 INDEPENDENCE

204.1 Assurance and Specified Auditing Procedures Engagements

A registrant 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 registrant and members of the firm shall be and remain free of any activity, interest or relationship which, in respect of the engagement, impairs the professional judgement or objectivity *of the registrant or a member of the firm or which, in the view of a reasonable observer, would impair the professional judgement or objectivity of the registrant or a member of the firm*. ***[2009]***

204.2 Compliance with Rule 204.1

A registrant who is required to be independent pursuant to Rule 204.1 shall, in respect of the particular engagement, comply with the provisions of Rules 204.3 and 204.4. ***[2014]***

204.3 Identification of Threats and Safeguards

A registrant 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 registrant shall eliminate the activity, interest or relationship creating the threat or threats, or refuse to accept or continue the engagement. ***[2014]***

204.4 Specific Prohibitions, Assurance and Specified Auditing Procedures Engagements

<u>Financial Interests</u>

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

b) A registrant shall not participate on the engagement team for an assurance client if the registrant, or an immediate family member of the registrant, holds, as trustee, a direct financial interest or a material indirect financial interest in the client.

1.1 *Notwithstanding Rules 204.4(1)(a) and (b), if the assurance client is a co-operative, credit union or caisse populaire; a social club, such as a golf club or curling club; or a similar organization, the financial interest in the assurance client held, either personally or as a trustee, by a registrant or an immediate or close family member of the registrant shall not preclude the registrant from participating on the engagement team provided that:*

a) such a financial interest is restricted to the minimum amount that is a prerequisite of membership;

b) the assets of the organization cannot by virtue of the organization's bylaws be distributed to the individual members of the organization other than as patronage *dividends or in circumstances of forced liquidation or expropriation, unless there is a written undertaking with the organization to forfeit entitlement to such distributed assets; and*

c) *the registrant or immediate or close family member:*

i) *does not serve on the governing body or as an officer of the organization;*

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;*

iii) *does not exercise any right derived from membership to vote at meetings of the organization; and*

iv) *cannot dispose of the financial interest for gain.*

2. a) *A registrant shall not perform an assurance engagement for an entity if the registrant holds a direct financial interest or material indirect financial interest in the entity.*

b) *A registrant shall not perform an audit or review engagement for an entity if the registrant or a network firm, has a direct financial interest or a material indirect financial interest in the entity.*

2.1 *Notwithstanding Rules 204.4(2)(a) and (b), if an assurance client is a co-operative, credit union or caisse populaire; a social club, such as a golf club or curling club; or a similar organization, the financial interest in the entity held by a registrant, or in the case of an audit or review engagement, a registrant or a network firm, shall not preclude the registrant from performing an assurance or audit or review engagement, as the case may be, for the entity, provided that:*

a) *such a financial interest is restricted to the minimum amount that is a prerequisite of membership;*

b) *the assets of the organization cannot by virtue of the organization's bylaws be distributed to the individual members of the organization other than as patronage dividends or in circumstances of forced liquidation or expropriation, unless there is a written undertaking with the organization to forfeit entitlement to such distributed assets; and*

c) *the registrant or network firm as the case may be:*

i) *does not serve on the governing body or as an officer of the organization;*

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;*

iii) *does not exercise any right derived from membership to vote at meetings of the organization; and*

iv) *cannot dispose of the financial interest for gain.*

3. *A registrant shall 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.*

4. *A registrant who is a partner of a firm and who holds, or whose immediate family member 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, unless, in the case of a financial interest held by an immediate family member, the financial interest is received as a result of employment and*

a) *the immediate family member does not have the right to dispose of the financial interest or, in the case of a share option, the right to exercise the option; or*

b) *where such rights are obtained, the financial interest is disposed of as soon as is practicable.*

5. a) *A registrant who is a partner or managerial employee of a firm and who 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.*

b) *A registrant who is a partner or managerial employee of a firm whose immediate family member 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*

i) *the non-assurance service is clearly insignificant; or*

ii) *the financial interest is received as a result of employment and*

A) *the immediate family member does not have the right to dispose of the financial interest, or in the case of a share option, the right to exercise the option; or*

B) *where such rights are obtained, the financial interest is disposed of as soon as is practicable.*

6. a) *A registrant shall not perform an audit or review engagement for an entity (the first entity) if the firm or network firm has a financial interest in a second entity, and the registrant 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 registrant shall not participate on the engagement team for an audit or review client if the registrant or an immediate family member of the registrant has a financial interest in an entity and the registrant 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 registrant, or immediate family member, 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. *Intentionally left blank.*

8. *Intentionally left blank*

9. *Intentionally left blank*

Loans and Guarantees

10. a) *A registrant 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, 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 registrant shall not perform an assurance engagement for a client that is not a bank or similar financial institution, if the firm, or network firm in the case of an audit or review client, has a loan to the client.*

c) *A registrant shall not perform an assurance engagement for a client if the firm, or network firm in the case of an audit or review client, guarantees a loan of the client.*

11. a) *A registrant shall not perform an assurance engagement for a client if the firm, or 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, unless the shareholder is a bank or similar financial institution and the loan or guarantee is made under normal commercial* *terms and conditions.*

b) *A registrant shall not perform an assurance engagement for a client if the firm, or 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 registrant shall not participate on the engagement team for an assurance client where the registrant has a loan from or guaranteed by:*

   i) *such a 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.*

b) *A registrant shall not participate on the engagement team for an assurance client where the registrant has a loan to or guarantees the borrowing of:*

   i) *such a client that is not a 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,*

Close Business Relationships

13. a) *A registrant shall not perform an audit or review engagement for an entity if the firm, or network firm, has a close business relationship with the entity, a related entity or the management of either, 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 either entity or its management, as the case may be.*

b) *A registrant 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, a related entity or the management of either 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, the related entity or the management of either, as the* *case may be.*

c) *A registrant who has, or whose immediate family member has, a close business relationship with an assurance client, a related entity or the management of either 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 registrant or immediate family member and the client, the related entity or the management of either, as the case may be.*

Family and Personal Relationships

14. *A registrant shall not participate on the engagement team for an assurance client if the registrant's immediate family member is an officer or director of the client or a related entity or is in a position to exert significant influence over the subject matter of the engagement, or was in such a position during the period covered by the assurance report or the engagement period.*

15. *A registrant shall not participate on the engagement team for an audit client that is a reporting issuer or listed entity if the registrant's immediate or close family member has an accounting role or a financial reporting oversight role, or had such a position during the period covered by the financial statements subject to audit by the registrant or the engagement period.*

Employment or service with a Reporting Issuer or Listed Entity Audit Client

16. *A registrant shall not perform an audit engagement for a reporting issuer or listed entity if:*

    a) *a person who participated in an audit capacity in an audit of the financial statements of the entity performed by the registrant is an officer or director of the entity or is in a financial reporting oversight role unless a period of one year has elapsed from the date that the financial statements were filed with the relevant securities regulator or stock exchange; or*

    b) *a person who was the firm's chief executive officer is an officer or director of the entity or is in a financial reporting oversight role, unless a period of one year has elapsed from the date that the individual was the chief executive officer of the firm.*

Recent Service with or for an Assurance Client

17. a) *A registrant shall not participate on the engagement team for an assurance client if the registrant served as an officer or director of the client or a related entity or was in a position to exert significant influence over the subject matter of the engagement during the period covered by the assurance report or the*

engagement period.

Temporary Loan of Staff to an Audit or Review Client

17. b) A registrant 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 registrant has loaned a member of the firm or a network firm to the entity or a related entity, unless:

i) the loan of any such person or persons is made for only a short period of time;

ii) the loan of any such person or persons is not made on a recurring basis;

iii) the loan of any such person or persons does not result in the person or persons making a management decision or performing a management function or providing any non-assurance services that would otherwise be prohibited by Rules 204.4(22) to (34); and

iv) management of the entity or related entity directs and supervises the work performed by the person or persons.

Serving as an Officer or Director of an Assurance Client

18. a) A registrant shall not perform an assurance engagement for an entity if a member or an employee of the firm serves as an officer or director of the entity or a related entity, except for serving as company secretary when 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.

Serving as an Officer or Director of an Audit or Review Client

18. b) A registrant shall not perform an audit or review engagement for an entity that is not a reporting issuer or listed entity if the member or an employee of the firm or of a network firm serves as an officer or director of the entity or a related entity except for serving as company secretary when 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.

Serving as an Officer or Director of a Reporting Issuer or Listed Entity Audit Client

19. A registrant shall not perform an audit engagement for a reporting issuer or listed entity, if a registrant or an employee *of the firm or of a network firm serves as an officer or a director of the reporting issuer or listed entity or a related entity.*

<u>Long Association of Senior Personnel with a Reporting Issuer or Listed Entity Audit Client</u>

20. a) A registrant shall not continue as the lead engagement partner or the engagement quality control reviewer with respect to the audit of the financial statements of a reporting issuer or listed entity for more than seven years in total, and shall not thereafter participate in an audit of the financial statements of the reporting issuer or listed entity until a further five years have elapsed.

In the case of an audit engagement of a reporting issuer that is a mutual fund, the lead engagement partner and the engagement quality reviewer shall not thereafter participate in an audit of the financial statements of the reporting issuer or another reporting issuer that is in the same mutual fund complex as the reporting issuer until a further five years have elapsed.

b) A registrant, who is a key audit partner with respect to the audit of the financial statements of a reporting issuer or listed entity, other than a lead engagement partner or a quality control reviewer, shall not continue in such role for more than seven years in total and shall not thereafter participate in an audit of the financial statements of the reporting issuer or listed entity until a further two years have elapsed.

In the case of an audit engagement of a reporting issuer that is a mutual fund, such an audit partner shall not thereafter participate in an audit of the financial statements of the reporting issuer or another reporting issuer that is in the same mutual fund complex as the reporting issuer until a further two years have elapsed.

c) Notwithstanding paragraph (b), when an audit client becomes a reporting issuer or listed entity, a key audit partner who has served in that capacity for five or more years at the time the client becomes a reporting issuer or listed entity, may continue in that capacity for two more years before being replaced as a key audit partner.

<u>Audit Committee Approval of Services to a Reporting Issuer or Listed Entity Audit Client</u>

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

<u>Performance of Management Functions</u>

22. a) A registrant shall not perform an assurance engagement for an *entity if, during the period covered by the assurance report or the engagement period, a member of the firm makes a management decision or performs a management function for the entity or a related 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 registrant will be implemented; or

iv) reporting in a management role to those charged with governance of the entity;

unless the management decision or management function is not related to the subject matter of the assurance engagement that is performed by the registrant.

b) A registrant shall not perform an audit or review engagement for an entity, if a member of the firm or 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 or a related entity, including any of the services listed in paragraph 22(a)(i) to (iv), whether or not the management decision or management function is related to the subject matter of the audit or review engagement that is performed by the registrant.

<u>Preparation of Journal Entries and Source Documents</u>

23. A registrant 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 of the engagement period, a member of the firm or network firm:

a) prepares or changes a journal entry, determines or changes an account code or a classification for a transaction or changes another accounting record, for the entity or a related entity, that affects the financial statements subject to audit or review by the registrant, without obtaining the approval of management of the entity; or

b) prepares a source document or originating data, or makes a change to such a document or data underlying such financial statements.

<u>Preparation of Accounting Records and Financial Statements for a Reporting Issuer or Listed Entity Audit Client</u>

24. A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, in other than emergency situations, during *either the period covered by the financial statements subject to audit or the engagement period, the registrant, a network firm or a member of the firm or network firm provides accounting or bookkeeping services related to the accounting records or financial statements including:*

a) maintaining or preparing the entity's, or a related entity's, accounting records;

b) preparing the financial statements or preparing financial statements which form the basis of the financial statements on which the audit report is provided; or

c) preparing or originating source data underlying the entity's 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.

In the event of an emergency situation, the registrant may perform the audit and perform such an accounting or bookkeeping service provided:

i) those who provide the service are not members of the engagement team for the audit;

ii) the provision of the service in such circumstances is not expected to recur;

iii) the provision of the service would not lead to any members of the firm or a network firm making decisions or judgements which are properly the responsibility of management; and

iv) the provision of the service receives the prior approval of the audit committee of the reporting issuer or listed entity in accordance with the provisions of Rule 204.4(21).

Provision of Valuation Services to an Audit or Review Client that is Not a Reporting Issuer or Listed Entity

25. a) A registrant 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 registrant, a network firm or a member of the firm or a network firm, provides a valuation service to the entity or a related entity where the valuation involves a significant degree of subjectivity and relates to amounts that are material to the financial statements subject to audit or review by the registrant, unless the valuation is performed for tax purposes only and relates to amounts that will affect such financial statements only through accounting entries related to taxation.

<u>Provision of Valuation Services to a Reporting Issuer or Listed Entity Audit Client</u>

25. b) A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, a network firm or a member of the firm or network firm, provides a valuation service to the client or a related entity, unless:

i) the valuation is performed for tax purposes only and relates to amounts that will affect such financial statements only through accounting entries related to taxation, or

ii) 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.

<u>Provision of Actuarial Services to a Reporting Issuer or Listed Entity Audit Client</u>

26. A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, 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.

<u>Provision of Internal Audit Services to an Audit or Review Client</u>

27. a) A registrant 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 registrant or a network firm or a member of the firm or network firm provides an internal audit service to the entity or a related entity unless, with respect to the entity for which the internal audit service is provided:

i) the entity designates an appropriate and competent resource within senior management to be responsible for internal audit activities and to acknowledge responsibility for designing, implementing and maintaining internal controls;

ii) the entity or its audit committee reviews, assesses and approves the scope, risk and frequency of the internal audit services;

iii) the entity's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;

iv) the entity's management evaluates and determines which *recommendations resulting from the internal audit services to implement and manages the implementation process; and*

v) the entity's management reports to the audit committee the significant findings and recommendations resulting from the internal audit services.

Provision of Internal Audit Services to a Reporting Issuer or Listed Entity Audit Client

27. b) A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, 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 Information Technology Systems Services to an Audit or Review Client

28. a) A registrant 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 registrant, a network firm or a member of the firm or network firm provides a financial information systems design or implementation service to the entity or a related entity where the service involves the design or implementation of all or part of a financial information technology system that either generates information that is significant to the accounting records or financial statements subject to audit or review by the registrant, or forms a significant part of either entity's internal controls that are relevant to the financial statements that are subject to audit or review by the registrant, unless with respect to the entity for which the information technology service is provided:

i) the entity acknowledges its responsibility for establishing and monitoring a system of internal controls;

ii) the entity assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee preferably within senior management

iii) the entity makes all management decisions with respect to the design and implementation process;

iv) the entity evaluates the adequacy and results of the design and implementation of the system; and

the entity is responsible for operating the hardware or software system and for the data is uses or generates.

Provision of Information Technology System Services to a Reporting Issuer or Listed Entity Audit Client

28. b) A registrant shall not perform an engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, 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 Litigation Support Services to an Audit or Review Client

29. a) A registrant shall not perform an audit or review engagement for a client if, during either the period covered by the financial statements subject to audit or review or the engagement period, the registrant, a network firm or a member of the firm or network firm, provides a litigation support service for the entity or a related entity, or for a legal representative thereof, for the purpose of advancing the entity's or related entity's interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation with respect to an amount or amounts that are material to the financial statements subject to audit or review by the registrant.

Provision of Litigation Support Services to a Reporting Issuer or Listed Entity Audit Client

29. b) A registrant shall not perform an audit engagement for a reporting *issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, a network firm or a member of the firm or network firm provides a litigation support service for the entity or a related entity, or for a legal representative thereof, for the purpose of advancing 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 registrant 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 the engagement period, the registrant, a network firm or a member of the firm or network firm provides a legal service to the entity or a related 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 or Listed Entity Audit Client

31. A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, 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 or Listed Entity Audit Client

32. A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the registrant, 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 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 with respect to hiring a specific candidate for a specific job.*

<u>Provision of Corporate Finance and Similar Services to an Audit or Review Client</u>

33. A registrant shall not perform an audit or review engagement for an entity if, during the period covered by the financial statements subject to audit or review or the engagement period, the registrant, a network firm or member of the firm or network firm, provides any of the following services:

a) promoting, dealing in or underwriting the entity's or a related entity's securities;

b) Advising the entity or a related entity on other corporate finance matters where:

i) the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements;

ii) the outcome or consequences of the advice has or will have a material effect on the financial statements; and

iii) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework;

c) making investment decisions on behalf of the entity or a related entity or otherwise having discretionary authority over the entity's or a related entity's investments;

d) executing a transaction to buy or sell the entity's or a related entity's investments; or

e) having custody of assets of the entity or a related entity, including taking temporary possession of securities purchased by the entity or a related entity.

<u>Provision of Tax Planning or Other Tax Advisory Services to an Audit or Review Client</u>

34. a) A registrant shall not perform an audit or review engagement for a client if, during either the period covered by the financial statements subject to audit or review or the engagement period, the registrant, a network firm or a member of the firm or network firm, provides tax planning or other tax advice to the client or a related entity, where:

i) the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements;

ii) the outcome or consequences of the advice has or will have a material effect on the financial statements; and

iii) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or *presentation under the relevant financial reporting framework.*

<u>Provision of Tax Calculations for the Purpose of Preparing Accounting Entries for a Reporting Issuer or Listed Entity</u>

34. b) A registrant shall not perform an audit engagement for a reporting issuer or listed entity if, in other than emergency situations, during either the period covered by the financial statement subject to audit or the engagement period, the registrant, a network firm or a member of the firm or a network firm, prepares tax calculations of current and future tax liabilities or assets for the reporting issuer or listed entity or a related entity for the purpose of preparing accounting entries that are subject to audit by the registrant.

In the event of an emergency situation, the registrant may perform the audit and perform such a tax service provided:

i) those who provide the service are not members of the audit engagement team;

ii) the provision of the service in such circumstances is not expected to recur;

iii) the provision of the service would not lead to any members of the firm or a network firm making decisions or judgements which are properly the responsibility of management; and

iv) the provision of the service receives the prior approval of the audit committee of the reporting issuer or listed entity in accordance with the provisions of Rule 204.4(21).

<u>Provision of Non-Assurance Services Prior to Commencement of Audit or Review Services</u>

35. a) Where a registrant, a network firm or a member of the firm or a network has provided a non-assurance service referred to in Rules 204.4(22) to (34) to a client prior to the engagement of the registrant to perform an audit or review engagement for the client, but during or after the period covered by the financial statements subject to audit or review by the registrant, the registrant shall not perform the audit or review engagement unless the particular non-assurance service was provided before the engagement period and the registrant:

i) discusses independence issues related to the provision of the non-assurance service with the audit committee

ii) requires the client to review and accept responsibility for the results of the non-assurance service; and

iii) precludes personnel who provided the non-assurance service from participating in the audit or review engagement, *such that any threat created by the provision of the non-assurance service is reduced to an acceptable level.*

Provision of Previous Non-Assurance Services to an Entity that has Become a Reporting Issuer or Listed Entity

35. b) Where a registrant, a network firm or a member of the firm or a network has performed a non-assurance service referred to in Rules 204.4(22) to (34) for an audit or review client that has become a reporting issuer or listed entity and the provisions or Rules 204.4(22) to (34) would have precluded the registrant from performing an audit engagement for a reporting issuer or listed entity the registrant shall not perform an audit engagement for the client unless the registrant

i) discusses independence issues related to the provision of the non-assurance service with the audit committee

ii) requires the client to review and accept responsibility for the results of the non-assurance service; and

iii) precludes personnel who provided the non-assurance service from participating in the audit or review engagement,

such that any threat to independence created by the provision of the non-assurance service is reduced to an acceptable level.

Pricing

36. A registrant shall not provide an assurance service for a fee that the registrant knows is significantly lower than that charged by the predecessor, or contained in other proposals for the engagement, unless the registrant can demonstrate:

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

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

Relative Size of Fees of a Reporting Issuer or Listed Entity Audit Client

37. a) A registrant shall not perform an audit engagement for a reporting issuer or listed entity when the total revenue, calculated on an accrual basis, for any services provided to the client and its related entities for the two consecutive fiscal years of the firm most recently concluded prior to the date of the financial statements subject to audit by the registrant, represent more than 15% of the total revenue of the firm, calculated on an accrual basis, in each such fiscal year, unless:

i) the registrant discloses to the audit committee the fact that the total of such revenue represents more than 15% of the *total revenue of the firm, calculated on an accrual basis, in each of those fiscal years; and*

ii) another professional accountant who is not a member of the firm performs a review, that is substantially equivalent to an engagement quality control review, of the audit engagement, either

A. prior to the audit opinion in respect of the financial statements being issued or

B. subsequent to the audit opinion in respect of the financial statements being issued but prior to the audit opinion on the client's financial statements for the immediately following fiscal period being issued.

Thereafter, when the total revenue, calculated on an accrual basis, for any services provided to the client and its related entities continue to represent more than 15% of the total revenue of the firm, calculated on an accrual basis, in the firm's most recently concluded prior fiscal year, the registrant shall not perform the audit unless the requirements of paragraphs 37(a)(i) and (ii)(A) are met.

b) A member shall not perform the review required by Rule 204.4(37)(a)(ii) if the member or the member's firm would be prohibited, pursuant to any provision of Rule 204, from performing an audit of the financial statements referred to in Rule 204.4(37)(a).

Evaluation or Compensation of Partners

38. A member who is or was a key audit partner shall not be evaluated or compensated based on the member's solicitation or sales of non-assurance services to the particular client or a related entity if such solicitation or sales occurred during the period during which the member is or was a key audit partner.

Gifts and Hospitality

39. A registrant who participates on an engagement team for an assurance client and the 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 registrant or firm, as the case may be.

Client Mergers and Acquisitions

40. a) A registrant shall not perform or continue with an audit or review engagement for an entity where, as a result of a merger or acquisition, another entity merges with or becomes a related entity of the audit or review client, and the registrant has a previous or current *activity, interest or relationship with the other entity that would, after the merger or acquisition, be prohibited pursuant to any provision of Rule 204 in relation to the audit or review engagement unless:*

i) the registrant terminates, by the effective date of the merger or acquisition any such activity, interest of relationship;

ii) the registrant terminates, as soon as reasonably possible and, in all cases, within six months following the effective date of the merger or acquisition, any such activity, interest or relationship and the requirements of Rule 204.4(40)(b) are met; or

iii) the registrant has completed a significant amount of work on the audit or review engagement and expects to be able to complete the engagement within a short period of time, the registrant discontinues in the role of audit or review service provider on completion of the current engagement and the provisions of Rule 204.4(40)(b) are met.

b) Notwithstanding the existence of the previous or current activity, interest or relationship described, the provisions or Rule 204.4(4)(a)(ii) and (iii) permit the registrant to perform or continue with the audit or review engagement provided that:

i) the registrant evaluates and discusses with the audit committee the significance of the threat created by any such activity, interest or relationship and the reasons why the activity, interest or relationship is not terminated or cannot reasonably be terminated by the effective date of the merger or acquisition, or within six months thereof, as the case may be;

ii) the audit committee requests the registrant to complete the audit or review engagement;

iii) any person involved in such activity or who has any such interest or relationship will not participate in the audit or review engagement or as an engagement quality control reviewer; and

iv) the registrant applies an appropriate measure or measures, as discussed with the audit committee, to address the threat created by any such activity, interest or relationship.

c) Where the previous or current activity, interest or relationship described in Rule 204.4(40)(a) creates such a significant threat to independence that compliance with the requirements of paragraphs 204.40(a) and (b) would still not reduce any such threat to an acceptable level, the registrant shall not perform or continue with the audit or review engagement. ***[2014]***

204.5 Documentation

a) A Registrant who, in accordance with Rule 204.3, has identified a threat that is not clearly insignificant, shall document a decision to accept or continue a particular engagement. The documentation shall include the following information:

i) a description of the nature of the engagement;

ii) the threat identified;

iii) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and

iv) an explanation of how, in the registrant's professional judgement, the safeguards eliminate the threat or reduce it to an acceptable level.

b) A registrant who, in an emergency situation, provides an accounting or bookkeeping service to a reporting issuer or listed entity audit client in accordance with the requirements of Rule 204.4(24) shall document both the rationale supporting the determination that the situation constitutes an emergency and that the registrant has complied with the provisions of subparagraphs (i) through (iv) of the Rule.

c) A registrant who, in an emergency situation, prepares tax calculations of current and future income tax liabilities or assets for a reporting issuer or listed entity audit client in accordance with the requirements of Rule 204.4(34)(b), for the purpose of preparing accounting entries that are subject to audit by the registrant shall document both the rationale supporting the determination that the situation constitutes an emergency and that the registrant has complied with the provisions of subparagraphs (i) through (iv) of the Rule.

d) A registrant who, in accordance with the requirements of Rule 204.4(35)(a), performs an audit or review engagement for a client where the registrant, a network firm or a member of the firm or network firm has provided a non-assurance services referred to in Rules 204.4(22) to (34) to the client prior to the engagement period but during or after the period covered by the financial statements subject to audit or review by the registrant shall document:

i) a description of the previously provided non-assurance service;

ii) the results of the discussion with the audit committee;

iii) any further measures applied to address the threat created by the provision of the previous non-assurance service; and

iv) the rational to support the decision of the registrant.

e) A registrant who, in accordance with the requirements of Rules 204.4(35)(b), performs an audit engagement for a client that has become a reporting issuer or listed entity where the registrant, a network firm or a member of the firm or a network firm provided a non-assurance service to the client prior to it having *become a reporting issuer or listed entity and the provisions of Rules 204.4(22) to (34) would have precluded the registrant from performing an audit engagement for a reporting issuer or listed entity, shall document:*

- *i) a description of the non-assurance service;*
- *ii) the results of the discussion with the audit committee;*
- *iii) any further measures applied to address the threat created by the provision of the non-assurance service; and*
- *iv) the rationale to support the decision of the registrant.*

f) A registrant who, in accordance with the requirements of Rules 204.4(40)(a) and (b), performs or continues with an audit or review engagement where, as a result of a merger or acquisition, another entity merges with or becomes a related entity of the audit or review client, and the registrant has a previous or current activity, interest or relationship with the other entity that would, after the merger or acquisition, be prohibited pursuant to any provision of Rule 204 in relation to the audit or review engagement, shall document

- *i) a description of the activity, interest or relationship that will not be terminated by the effective date of the merger or acquisition and the reasons why it will not be terminated;*
- *ii) the results of the discussion with the audit committee and measures applied to address the threat created by any such activity, interest or relationship; and*
- *iii) the rationale to support the decision of the registrant.* ***[2014]***

204.6 Registrants Must Disclose Prohibited Interests and Relationships

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

A registrant who has been assigned to an engagement team for an assurance client shall advise, in writing, a partner designated by the firm of any interest, or relationship or activity that would preclude the person from being on the engagement team. ***[2014]***

204.7 Firms to Ensure Compliance

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, 204.3, 204.4 or 204.8. ***[2014]***

INDEX TO GUIDELINES (204.1 – 204.7)

GUIDELINES TO RULES 204.1 TO 204.7

INTRODUCTION

1. It is a fundamental principle of the practice of Chartered Accountancy that a registrant 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 registrant of unbiased judgement and objective consideration in arriving at opinions or decisions in support of the registrant's report. A registrant is not considered to be independent if the registrant does not comply with the provisions of Rules 204.1 to 204.4. **[2014]**

3. Rule 204.1 provides that a registrant 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 judgement or objectivity of the registrant or a member of the firm or which, in the view of a reasonable observer, would impair that professional judgement or objectivity.

4. Rule 204.2 provides that a registrant, who is required to be independent pursuant to Rule 204.1 in respect of a particular engagement, must comply with Rules 204.3 and 204.4. **[2014]**

5. Rule 204.3 provides that a registrant, 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 registrant must eliminate the activity, interest or relationship creating the threats, or refuse to accept or continue the engagement.

   Rule 204.4 describes circumstances and activities which registrant 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 204.3. The requirements to avoid these circumstances and activities are referred to as "prohibitions." **[2014]**

6. Rule 204.5 requires a registrant to document compliance with Rules 204.3, 204.4(24), 204.4(34)(b), 204.4(35) and 204.4(40). **[2014]**

7. Rule 204.6 provides that a registrant must disclose breaches of the Rule to a partner designated by the firm. It also provides that, when a registrant has been assigned to an engagement team, the registrant must disclose to a partner designated by the firm any interest, relationship or activity that would preclude the registrant from being on the engagement team.

   Rule 204.7 provides that a firm must ensure that members of the firm comply with Rule 204.4. The Rule provides that a firm may 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. **[2014]**

8. This Guideline describes a conceptual framework of principles that registrants should use to identify threats to independence and evaluate their significance. If the threats are other than clearly insignificant, the registrant 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 registrant or client. Safeguards should be identified and, where applicable, applied to eliminate the threats or reduce them to an acceptable level. Registrants should exercise professional judgement to determine which safeguards to apply and whether the safeguards will permit the registrant 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 registrant merely to comply with the examples presented. Rule 204.3 requires that they apply the principles to any particular circumstance encountered, whether or not the examples used in the Guideline, or the prohibitions set out in Rule 204.4, reflect those circumstances. **[2014]**

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 Guideline sets out how, in the Council's opinion, a reasonable observer might view certain situations in the application of Rule 204.1 to 204.7. The

reasonable observer is a hypothetical individual who has knowledge of the facts which the registrant knew or ought to have known, including the safeguards applied, and who applies judgement objectively, with integrity and due care. Registrants should also refer to the Foreword to the Rules, which provides the rationale for establishing the reasonable observer principle. **[2014]**

13. Registrants are reminded that for the purposes of Rules 204.1 to 204.7, 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 judgement or objectivity of the registrant or a member of the firm or which, in the view of a reasonable observer, would impair the professional judgement or objectivity of the registrant or a member of the firm. Frequently it is appearance of independence, or lack thereof, that poses the greatest challenge. In all situations, registrants should reflect on the wording of the Rule and Guideline to ensure compliance with the spirit and intent of the Rule and Guideline. **[2014]**

14. If, after considering the rules and this Guideline, registrants 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 a ruling of the Bylaws & Rules Committee.

15. Registrants should also be cognizant of any relevant Canadian or foreign legislation that may preclude a registrant from accepting or continuing an engagement. Registrants are cautioned that legislation under which corporations and other enterprises are incorporated or governed may impose differing requirements in respect of independence. Registrants should satisfy both the requirements of any governing legislation and these Rules of Professional Conduct.

16. Registrants are reminded that Rules 204.8 and 204.9 deal respectively with independence standards for insolvency engagements and the requirement to disclose when the appearance of independence may be lacking in other engagements. **[2014]**

THE FRAMEWORK

17. The objective of this Guideline is to assist registrants 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 Guideline 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 judgement ought to be free from all economic, financial and other relationships. This is impossible, as everyone has relationships with others. Therefore, registrants 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 registrants 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 Guideline describes a conceptual framework of principles for compliance with Rules 204.1 to 204.7. Registrants 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 in 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 registrant or network firm should eliminate the activity, interest or relationship creating the threats, or the registrant should refuse to accept or continue the particular engagement. **[2014]**

21. Rule 204.1 requires registrants 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 204.3 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. **[2014]**

22. Rule 204.1 and, therefore, the principles in this Guideline 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 engagement that is not an audit or review engagement, in the purpose, subject matter and intended users of the report. Registrants 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 a public accounting practice, 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 public accounting practice or with any other business or practice which is cross-referenced with a public accounting practice in accordance with definitions found in Bylaw 100(w) and (ddd). In those jurisdictions where a registrant may practice in a corporate form, firm includes a professional corporation. **[2014]**

NETWORK FIRMS

25. The references to “firms” and “network firms” in Rules 204.1 to 204.7 and this Guideline should be read as referring to those entities themselves and not to the persons who are partners or employees thereof. **[2014]**

26. Rules 204.1 to 204.4 and this Guideline bring the independence of a network firm into consideration when evaluating the independence of a registrant for an assurance engagement. It is the registrant’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. **[2014]**

26A A firm may participate in a larger structure with other firms and entities to enhance its ability to provide professional services. Whether the agreements and relationships among the firms and entities that are part of such a larger structure are such that any of the firms or entities is a network firm depends on the particular facts and circumstances. The geographic location of the firms and entities, either within or outside of Canada, is irrelevant as to whether such a larger structure exists. Whether the firms and entities are legally separate from each other is not determinative, in and of itself, of whether such a larger structure exists. **[2014]**

26B Another firm or entity will not be considered to be a network firm simply by virtue of the existence of one of the following arrangements between that other firm or entity and the firm itself:

(a) the sharing of costs that are immaterial to the firm that is performing the particular engagement;

(b) an association with the other firm or entity to provide a service or develop a product on a joint basis;

(c) co-operation to facilitate the referral of work or solely to respond jointly to a request for a proposal for the provision of a professional service;

(d) references on stationery or in promotional materials to an association with other firms or entities that does not constitute a larger structure of co-operating firms or entities as described in the definition of network firm; or

(e) the use of a common name when an agreement in relation to the sale of a component of a firm or entity provides that each of the transacting firms or entities may use the existing name for a limited period of time. **[2014]**

26C The definition of a network firm refers to co-operating entities that share significant professional resources. Shared professional resources may be considered to be significant where there is an exchange of people or information, such as where staff is drawn from a shared pool, or a common technical department is created within a larger structure to provide participating firms or entities with technical advice that they are required to follow. Shared professional resources will not be considered to be significant when they are limited to common audit methodology or audit manuals or a shared training endeavor, with no exchange of personnel or client or market information. Similarly, the sharing of costs limited only to the development of such common audit methodology, audit manuals or a shared training endeavor will not be considered to give rise to a network firm relationship. **[2014]**

ENGAGEMENTS THAT ARE NOT AUDIT OR REVIEW ENGAGEMENTS

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 204.7 and this Guideline, 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. **[2014]**

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 by 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 registrant's engagement, including the criteria by which the particular subject matter is to be evaluated. The registrant'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 registrant 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.

EXTENT OF APPLICATION OF REQUIREMENT FOR INDEPENDENCE FOR DIFFERENT TYPES OF ENGAGEMENT

29. The effect of Rules 204.1 to 204.7 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. **[2014]**

30. *Intentionally left blank.* **[2014]**

RELATED ENTITIES

31. For the purposes of Rules 204.1 to 204.7 "related entity" is a defined term that is dependent on the nature of the assurance engagement, the nature of the client and the relationship between the client and the other entity. The circumstances in which another entity is defined to be a related entity of an assurance client are outlined below:

Definition reference	Test	Reporting issuer or listed entity client	Audit or review client that is not a reporting issuer or listed entity	Non-audit, non-review assurance client
(a)(i) (b)(i) (c)(i)	The entity is controlled by the client.	Related	Related	Conditional*
(a)(ii)&(iii) (b)(ii)(A)&(B) (c)(ii)&(iii)	The entity has either control (ii) or significant influence (iii) over the client and the client is material to the entity.	Related	Conditional*	Conditional*
(a)(iv) (b)(ii)(C) (c)(iv)	The entity and the client are both controlled by a second entity and both the client and the first entity are material to the controlling second entity.	Related	Conditional*	Conditional*
(a)(v) (b)(ii)(D) (c)(v)	The entity is subject to significant influence by the client and the entity is material to the client.	Related	Conditional*	Conditional*

*An entity referred to in paragraphs (b)(ii)(A) to (D) and (c)(i) to (v) of the definition of "related entity", as applicable, is a related entity if the engagement team knows or has reason to believe that an activity, interest or relationship involving the other entity is relevant to the evaluation of independence of the registrant with respect to the assurance engagement. This condition is not intended to require the engagement team to undertake a search for such possible activities, interests or relationships with such entities. **[2014]**

31A In determining whether significant influence exists registrants 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. **[2014]**

KEY AUDIT PARTNERS

32A A "key audit partner" is defined as an audit partner who is the lead engagement partner, the engagement quality control reviewer, and any other audit partner on the engagement team who makes important decisions or judgements on significant matters with respect to the audit or review engagement.

A key audit partner does not include those "specialty" and "technical" partners who consult with others on the engagement team regarding technical or industry-specific issues, transactions or events, including tax matters. In addition, the provisions of Rules 204.4(20)(b) and 204.4(38) 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. **[2014]**

32B A transitional provision has been introduced in relation to the adoption, in 2014, of the term "key audit partner". This transitional provision will permit a person who was not required to rotate under the previous requirements to serve up to an additional two years in a key audit partner role before rotation is required. **[2014]**

RETIRED PARTNERS

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 204.7 and the related Guideline. 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. **[2014]**

34. Intentionally left blank. **[2014]**

EVALUATING THREATS AND SAFEGUARDS

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 registrant or a network firm is inadvertently in breach of a provision of Rule 204. If such an inadvertent breach occurs, it would generally not impair independence for the purposes of Rules 204.1 to 204.7, 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. **[2014]**

36. Rule 204.4 describes activities, interests or relationships that create threats to independence that are so significant that there are no safeguards available to reduce them to an acceptable level and, accordingly, prohibit the provision of assurance services, as specified, in conjunction with such activities, interests or relationships. Rules 204.1 to 204.7 and this Guideline also describe the threats to independence and analyze safeguards that may be capable of eliminating them or reducing them to an acceptable level. They conclude with some examples of how the 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 judgement 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. **[2014]**

37. When a registrant identifies a threat to independence that is not clearly insignificant, and the registrant decides to apply appropriate safeguards and accepts or continues the assurance engagement, the decision should be documented in accordance with Rule 204.5. 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 registrant's professional judgement, the safeguards eliminate the threat or reduce it to an acceptable level. **[2014]**

38. Throughout this Guideline, 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. **[2014]**

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 an 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. **[2014]**

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) evaluating performance or providing compensation for selling non-audit services to an assurance client;

    f) having a close business relationship with an assurance client; and

    g) potential employment with an assurance client. **[2014]**

41. A **Self-Review Threat** occurs when any product or judgement from a previous engagement needs to be evaluated in reaching a conclusion on the particular assurance engagement, or when a person on the engagement team was previously an officer or director of the client, or was in a position to exert 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, an officer or director 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 significant influence over the subject matter of the assurance engagement, or another person having the duties or responsibilities normally associated with such an employee;

c) a registrant performing services for an assurance client that directly affect the subject matter of the engagement; and

d) a registrant preparing original data used to generate financial statements or preparing other records that are the subject matter of the engagement. **[2014]**

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 judgement 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

b) acting as an advocate for or on behalf of an assurance client in litigation or in resolving disputes with third parties. **[2014]**

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 an officer or director of the assurance client;

b) a person on the engagement team having an immediate or close family member who is in a position to exert significant influence over the subject matter of the assurance engagement;

c) a former partner of the firm being an officer or director of the assurance client or in a position to exert 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. **[2014]**

44. An **Intimidation Threat** occurs when a person on the engagement team may be deterred from acting objectively and exercising professional skepticism 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. Registrants have an ongoing responsibility to comply with Rules 204.1 to 204.7 by taking into account the context in which they practice, 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. **[2014]**

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 review;

 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.

 However, it is not possible to rely solely on safeguards within the assurance client to reduce threats to an acceptable level. **[2014]**

48. Where an audit committee does not exist, as is set out in the definition of "audit committee", references in this Rule to an audit committee should be interpreted to refer to another governance body which has the duties and responsibilities normally granted to an audit committee or to those charged with governance for the entity. In some cases, this role may be filled by client management personnel. *The CICA Handbook – Assurance* requires registrants to determine the appropriate person or persons within the entity's governance structure with whom to communicate and establishes requirements for communication on matters relating to independence with such a person or persons. **[2014]**

49. Intentionally left blank. **[2014]**

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; or

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. **[2014]**

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; or

    i) removing a person from the engagement team, when that person's financial interests, relationships or activities create a threat to independence. **[2014]**

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 **Error! Reference source not found.** - **Error! Reference source not found.** 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 review 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 at the earlier of the date when the registrant signs the engagement letter or commences procedures in respect of the engagement 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 or listed entity, 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. **[2014]**

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 registrant. When an entity becomes an audit or review client during or after the period covered by the financial statements on which the registrant will report, the registrant should consider whether any threats to independence may be created by 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.

    Similarly, in the case of an assurance engagement that is not an audit or review engagement, the registrant should consider whether any financial or business relationships may create threats to independence. **[2014]**

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 engagement period in connection with the audit or review engagement and the non-assurance service would have been prohibited by the provisions of

Rules 204.4(22) to (34) in relation to the performance of an audit or review engagement for the client, the provisions of Rule 204.4(35) apply. Rule 204.4(35)(a) requires the registrant to:

(a) discuss independence issues related to the provision of the non-assurance service with the audit committee;

(b) require the client to review and accept responsibility for the results of the non-assurance service; and

(c) preclude personnel who provided the non-assurance service from participating in the audit or review engagement

such that any threat created by the provision of the non-assurance service is reduced to an acceptable level.

The determination as to whether any such threat has been so reduced will require the registrant to consider the nature and impact of the threat to independence and take any further measures that are necessary to reduce it to an acceptable level. Such further measures might include engaging another firm to review the results of the non-assurance service or having another firm re-perform that service to the extent necessary to enable the other firm to take responsibility for the non-assurance service.

If the provision of the non-assurance service creates such a significant threat to independence that compliance with the requirements of Rule 204.4(35)(a) would still not reduce any such threat to an acceptable level, the registrant is required to decline the audit or review engagement.

Registrants are also reminded that, even where a non-assurance service that is not specifically addressed by the provisions of Rules 204.4(22) to (35) has been provided to an audit or review client, a threat to independence may still be created by the provision of the non-assurance service. In such circumstances, registrants are required, in accordance with the provisions of Rule 204.3, to evaluate any threats so created and apply safeguards to reduce them to an acceptable level or decline the audit or review engagement. **[2014]**

55A Registrants are also required by Rule 204.5(d) to document:

(a) a description of the previously provided non-assurance service;

(b) the results of the discussion with the audit committee;

(c) any further measures applied to address the threat created by the provision of the previous non-assurance service; and

(d) the rationale to support the decision of the registrant to accept the audit or review engagement.

REPORTING ISSUERS AND LISTED ENTITIES

56. Rule 204.4(35)(b) addresses the situation where a non-assurance service has been provided to an audit client prior to that client becoming a reporting

issuer or listed entity and the non-assurance service would have been prohibited by the provisions of Rules 204.4(22) to (34) in relation to the performance of an audit engagement for a reporting issuer or listed entity. Rule 204.4(35)(b) requires the registrant to:

a) discuss independence issues related to the provision of the non-assurance service with the audit committee;

b) require the client to review and accept responsibility for the results of the non-assurance service; and

c) preclude personnel who provided the non-assurance service from participating in the audit engagement

such that any threat created by the provision of the non-assurance service is reduced to an acceptable level. **[2014]**

56A Registrants are also required by Rule 204.5(e) to document:

(a) a description of the previously provided non-assurance service;

(b) the results of the discussion with the audit committee;

(c) any further measures applied to address the threat created by the provision of the previous non-assurance service; and

(d) the rationale to support the decision of the registrant. **[2014]**

57. For the purposes of Rule 204.4 an entity is a reporting issuer if it is defined as a reporting issuer under the applicable Canadian provincial or territorial securities legislation and has 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. An entity is a listed entity if it has shares, debt or other securities that are quoted on, listed on or marketed through a recognized stock exchange or other equivalent body, whether that recognized stock exchange or other equivalent body is located within or outside of Canada, and has 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. **[2014]**

58. When an entity becomes a reporting issuer or listed entity 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 or listed entity, to comply with the specific prohibitions contained in Rule 204.4 that relate to an audit of a reporting issuer or listed entity. For example, bookkeeping services may not be provided following the date of an initial public offering, except in

emergency situations. 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 complied with the provisions of Rule 204.4(35)(b). **[2014]**

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, registrants 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. Financial interests may be held through an intermediary such as a collective investment vehicle, estate or trust. The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When such control or ability exists, that financial interest is a direct financial interest. Conversely, when such control or ability does not exist, such a financial interest is an indirect financial interest. **[2014]**

62. In the application of Rules 204.4(1) to (12) to an assurance, audit or review client the reference to an assurance, audit or review client, a client or an entity includes related entities, as defined, of the assurance, audit or review client, client or entity, as the case may be. **[2014]**

Assurance clients

63. Rule 204.4(1) provides that a registrant who participates on an engagement team for an assurance client, including an audit or review client, and the

registrant's immediate family member may not hold a direct financial interest or a material indirect financial interest in the assurance client. **[2014]**

64. A reasonable observer will not view a registrant 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 registrants and immediate family members of registrants who hold a direct financial interest or material indirect financial interest in the capacity of a trustee. **[2014]**

65. When a person on an engagement team, or any of the person's immediate family members, receives, for example, by way of gift or inheritance, a direct financial interest or a material indirect financial interest in an assurance client, or a related entity, 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 204.6 requires a member who has an interest that is precluded by this Rule to advise in writing a partner designated by the firm of the interest. When a financial interest in an assurance client or related entity is acquired as a result of a merger or acquisition, the provisions of Rule 204.4(40) apply. **[2014]**

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 assurance client, or a related entity, 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. **[2014]**

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 members. 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 dependent 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. **[2014]**

68. 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 practice 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. **[2014]**

69. An inadvertent breach of the provisions of Rules 204.4(1) to (12), 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. **[2014]**

70. When an inadvertent breach of the provisions of Rules 204.4(1) to (12) 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 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 204.6 requires a member who has an interest that is precluded by Rule 204 to advise in writing a partner designated by the firm of the interest. Inadvertent breaches are also discussed in paragraph 35 of this Guideline. **[2014]**

Assurance clients that are not audit or review clients

71. Rule 204.4(2)(a) 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 or in a related entity. **[2014]**

72. With respect to an assurance report for 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 by the *CICA Handbook – Assurance*, members are referred to the provisions in paragraph 28 of this Guideline. **[2014]**

Audit or review clients

73. Rule 204.4(2)(b) provides that a registrant may not perform an audit or review engagement for an entity if the registrant or a network firm has a direct

financial interest or a material indirect financial interest in the entity or in a related entity. **[2014]**

74. Rule 204.4(3) provides that a registrant 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. **[2014]**

75. Rule 204.4(4) provides that a partner of a firm who holds, or whose immediate family member, except in specified circumstances, 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 practice in the same office as the lead engagement partner for the client. **[2014]**

76. The office in which the lead engagement partner practices 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 Guideline, when the lead engagement partner is located in a different office from others on the engagement team, professional judgement should be exercised to determine in which office the partner practices in connection with the audit or review engagement. **[2014]**

77. Rule 204.4(5) provides that a partner or managerial employee of a firm who holds, or whose immediate family member, except in specified circumstances, 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. **[2014]**

78. A financial interest in an audit or review client, or a related entity, that is held by an immediate family member of:

    - a partner located in the office in which the lead engagement partner practices 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 (e.g., pension rights or share options), the immediate family member does not have the right to dispose of the financial interest or, in the case of a share option, the right to exercise the option and, where appropriate, safeguards are applied to reduce any threat to independence to an acceptable level. **[2014]**

79. 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. **[2014]**

80. Rule 204.4(6) provides that a registrant 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 registrant 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 registrant may not participate on the engagement team for an audit or review client if that person or that person's immediate family member 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.

81. Intentionally left blank. **[2014]**

82. Intentionally left blank. **[2014]**

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. **[2014]**

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, unless the shareholder is a bank or similar financial institution and the loan or guarantee is made under normal commercial terms and conditions. In addition, a firm may not make a loan to, or guarantee a loan of, such a person. **[2014]**

85. Rule 204.4(12) provides that a registrant may not participate on the engagement team for an assurance client of the firm if:

    a) the registrant 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 registrant 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, unless the shareholder is a bank or similar financial institution and the loan or guarantee is made under normal commercial terms and conditions; or

c) the registrant 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. **[2014]**

86. A loan from, or a loan guaranteed by, 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. **[2014]**

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 to network firms. In all cases the provisions of Rule 204.4(10), (11) and (12) should be read as applying also to related entities of the client. **[2014]**

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. Registrants should also consider whether such threats may be created by close business relationships with a related entity or its management. 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 registrant, firm or network firm as the case may be. **[2014]**

90. Rule 204.4(13) provides that a firm or 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 registrant who, or whose immediate family member, 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 registrant and the client or its management. **[2014]**

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 members 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. **[2014]**

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 or a related entity may create a self-interest, familiarity or intimidation 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 or

related entity. Consequently, there are many circumstances that involve a threat to independence that will require evaluation. **[2014]**

94A A person has an accounting role when the person is in a position to or does exercise more than minimal influence over the contents of the client's accounting records related to the financial statements that are subject to audit or review by the registrant or over anyone who prepares such financial statements. **[2014]**

94B A person has a financial reporting oversight role when the person is in a position to or does exercise influence over the financial statements that are subject to audit or review by the registrant or over anyone who prepares such accounting records or financial statements.

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.

When the financial statements of an audit or review client are consolidated, a financial reporting oversight role can extend beyond the client to its subsidiaries or investees. In determining whether an individual is in a financial reporting oversight role for the audit or review client, consideration should be given to the position of the individual, the extent of the individual's involvement in the financial reporting process of the client and the impact of the individual's role on the financial statements subject to audit or review by the registrant. **[2014]**

95. Rule 204.4(14) provides that a registrant may not participate on the engagement team for an assurance client if such person's immediate family member is an officer or director of the client or a related entity or is in a position to exert significant influence over the subject matter of the engagement, or was in such a position during any period covered by the assurance report or the engagement period. **[2014]**

96. When a close family member of a person on the engagement team is an officer or director of the assurance client or is in a position to exert 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; 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. **[2014]**

97. A self-interest, familiarity or intimidation threat may exist when:

(a) an officer or director or person in a position to exert significant influence over the subject matter of the assurance engagement, 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; or

(b) a director, officer or employee in a financial reporting oversight role with respect to an audit or review 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.

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 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. **[2014]**

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) an officer or director of the assurance client or a related entity, or person in a position to exert significant influence over the subject matter of the assurance engagement; or

(b) an officer or director of the assurance client or a related entity, or person in a financial reporting oversight role with respect to the financial statements subject to audit or review by the registrant.

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. **[2014]**

99. An inadvertent breach of the provisions of Rules 204.4(14) or (15) as they relate to family and personal relationships would not impair the independence of the member of the firm, or the 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. **[2014]**

100. When an inadvertent breach of the provisions of Rules 204.4(14) or (15) 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.

Registrants are reminded that Rule 204.6 requires a member who has a relationship that is precluded by this Rule to advise in writing a partner designated by the firm of the interest. Inadvertent breaches are also discussed in paragraph 35 of this Guideline. **[2014]**

Audit clients that are reporting issuers or listed entities

101. Rule 204.4(15) provides that a registrant may not participate on the engagement team for an audit client that is a reporting issuer or listed entity if such person's immediate or close family member has an accounting role or a financial reporting oversight role, or had such a position during the period covered by the financial statements subject to audit by the registrant or the engagement period. **[2014]**

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 an officer or director of the assurance client or a related entity, or a person in a position to exert influence over the subject matter of the assurance engagement has been a member of 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. **[2014]**

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 significant influence over the subject matter of the assurance engagement or the financial statements subject to audit or review by the registrant;
- 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:

- 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. **[2014]**

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 judgements made by that person while performing the engagement.

The effect of the safeguards described above is that registrants who initiate or entertain discussions with respect to a potential role with an assurance client would be precluded from being on the engagement team for that assurance engagement until such discussions have been concluded and acceptance of such a role has been declined. **[2014]**

Audit clients that are reporting issuers or listed entities

105. Notwithstanding the general guidance in paragraphs 102 to 104 of this Guideline, Rule 204.4(16)(a) provides that a firm may not perform an audit engagement for a client that is a reporting issuer or listed entity if a person who participated in an audit capacity in an audit of the financial statements of the client is an officer or director of the client or a related entity or is in a financial reporting oversight role unless a period of one year has elapsed from the date when the financial statements of the client were filed with the relevant securities regulator or stock exchange. **[2014]**

106. Rule 204.4(16)(b) provides that, where a person who was the firm's chief executive officer is an officer or director of the client or related entity or is in a financial reporting oversight role, a firm may not perform an audit engagement for the client unless a period of one year has elapsed from the date that the person assumed that position. Chief executive officer means a person in a position having the usual responsibility and authority of a chief executive officer regardless of the title applied to the person. **[2014]**

107. For the purposes of Rule 204.4(16)(a), other than a key audit partner, 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 or listed entity 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 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 the lead engagement partner through to the firm's chief executive; and

    d) a person who provided quality control for the audit engagement. **[2014]**

108. An individual may have fully complied with Rule 204.4(16)(a) and (b) 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. **[2014]**

109. For the purposes of Rule 204.4(16)(a) 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 or director of an assurance client or related entity or a person who has been in a financial reporting oversight role becomes a part of the engagement team for that assurance client. **[2014]**

111. Rule 204.4(17)(a) provides that a registrant 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 in a position to exert significant influence over the subject matter of the engagement during the period covered by the assurance report or the engagement period. **[2014]**

111A If, prior to the period covered by an assurance report, a person on the engagement team served as an officer or director of the assurance client or a related entity, or had been in a position to exert 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;
- the length of time since the individual left the position; 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. **[2014]**

112. Rule 204.4(17(b) provides that, except in specific circumstances, a registrant may 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 by the registrant or the engagement period, the registrant has loaned a member of the firm or a network firm to the entity or a related entity. **[2014]**

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

113. Rule 204.4(18)(a) provides that a member or employee of a firm may not serve as an officer or director of an assurance client or a related entity. In the case of an audit or review client that is not a reporting issuer or listed entity, this prohibition is extended to members and employees of network firms by Rule 204.4(18)(b). However, a partner or employee of the firm or a network firm may serve as company secretary for an assurance client that is not a reporting issuer or listed entity where permitted by local law, professional rules or practice, and when the duties and functions undertaken are limited to those of a routine and formal administrative nature. In the case of an audit client that is a reporting issuer or listed entity, Rule 204.4(19) provides that a member or employee of a firm or a network firm may not serve as an officer or director of the reporting issuer or listed entity client or a related entity. The exception for serving as company secretary, where permitted by local law, professional rules or practice, and when the duties and functions undertaken are limited to those of a routine and formal administrative nature, is not extended to include such audit engagements. **[2014]**

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 firm serves as company secretary for an assurance client or related entity, 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. Similarly, if a partner or employee of a firm or network firm serves as company secretary for an audit or review client that is not reporting issuer or listed entity or a related entity, 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. **[2014]**

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 members, 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. **[2014]**

I. *Intentionally left blank*

118. Intentionally left blank. **[2014]**

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 judgement 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 registrant is subject to external practice review; 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 issuers or listed entities

120. Rule 204.4(20)(a) provides that a member may not continue as the lead engagement partner, or the engagement quality control reviewer, with respect to the audit of the financial statements of a reporting issuer or listed entity for more than seven years in total and may not thereafter participate in an audit of the financial statements of the entity until a further five years have elapsed. **[2014]**

120A Rule 204.4(20)(b) provides that a member, other than a lead engagement partner or engagement quality control reviewer, may not continue as a key audit partner on the engagement team with respect to the audit of the financial statements of a reporting issuer or listed entity for a period of more than seven years in total and may not thereafter participate in an audit of the financial statements of the entity until a further two years have elapsed. **[2014]**

120B In the case of a reporting issuer that is a mutual fund Rules 204.4(20)(a) and (b) extend the partner rotation requirements and restrictions described above to the audits of financial statements of mutual funds that are reporting issuers within the same mutual fund complex, as defined. **[2014]**

121. Rule 204.4(20) provides that an audit partner who has completed the permitted term as a lead engagement partner, engagement quality control reviewer or other key audit partner may not participate in the audit until further prescribed time periods have elapsed. Accordingly, such partners may not:

- provide services pertaining directly to the audit or to a review of interim financial statements;
- provide quality control for either such engagement;
- consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events; or
- otherwise directly influence the outcome of any such engagement.

However, such partners may be consulted for the purpose of transferring knowledge of the client to the engagement team. **[2014]**

122. When an audit client becomes a reporting issuer or listed entity, the length of time a key audit partner has served in that capacity should be considered in determining when the partner must be replaced on the engagement team. However, Rule 204.4(20)(c) provides that if a key audit partner has served in that capacity for five or more years at the time the client becomes a reporting issuer or listed entity, such person may continue in that capacity for two more years. **[2014]**

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

123. Rule 204.4(21) provides that a registrant may not provide a service to a reporting issuer or listed entity, 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 126, all non-audit services for the reporting issuer or listed entity and its subsidiaries must be specifically pre-approved by the audit committee. **[2014]**

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 listed entity, 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. **[2014]**

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 or listed entity. 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

registrant 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. **[2014]**

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

General provisions

127. Firms have traditionally provided to their clients a range of non-assurance services that are consistent with their skills and expertise. The provision of such a non-assurance service is not subject to the requirements of Rule 204.1 and, accordingly, does not require independence on the part of a registrant. However, the provision of such a non-assurance service may create a self-interest, self-review or advocacy threat that impacts the independence of the registrant with respect to the provision of an assurance or specified auditing procedures service for which independence is required by Rule 204.1. Consequently, before a firm accepts an engagement to provide a non-assurance service, it should evaluate the significance of any threat to independence, in relation to an existing assurance service, that may be created by providing the non-assurance 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. Specific circumstances in which adequate safeguards do not exist to eliminate or reduce such a threat to independence to an acceptable level are set out in Rules 204.4(22) to (34) as prohibitions. **[2014]**

128. Subject to the specific prohibitions set out in Rules 204.4(22) to (34), a firm or a member of a firm may provide a non-assurance service to an assurance client or related entity, 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 service on the independence of the persons on the engagement team and the firm;
    - involving a professional accountant 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 non-assurance service performed by the firm;

- disclosing to the audit committee the nature of the non-assurance service and extent of fees charged; or
- arranging that the members of the firm providing the non-assurance service do not participate on the assurance engagement team. **[2014]**

129. Intentionally left blank. **[2014]**

Performance of management functions

130. Rule 204.4(22) provides that, during the period covered by the assurance report or the engagement period, a member of a firm may not make management decisions or perform management functions for an assurance client that is not an audit or review client or related entity unless the management decision or management function is not related to the subject matter of the assurance engagement that is performed by the registrant. Rule 204.4(22)(b) provides that in the case of an audit or review client a member of the firm or a network firm may not make any management decision or perform any management function for the client or a related entity during either the engagement period or the period covered by the financial statements subject to audit or review by the registrant. 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 registrant should be implemented; or

    (d) reporting in a management role to those charged with governance of the client or related entity. **[2014]**

131. Obtaining an understanding of the client's internal controls is required by generally accepted auditing standards. Members often become involved in diagnosing, assessing and recommending to management ways in which internal controls can be improved or strengthened. Notwithstanding Rule 204.4(22) the independence of a registrant would not be impaired by the provision of services to assess the effectiveness of the internal controls of an assurance client or a related entity and to recommend improvements in the design and implementation of internal controls and risk management control. **[2014]**

132. Intentionally left blank. **[2014]**

Rebuttable presumption – not subject to audit procedures

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 or listed entity 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 judgement. Therefore, the determination of whether to apply detailed audit procedures to a unit of a consolidated entity is, in itself, an audit procedure. **[2014]**

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 registrant to provide assistance.

135. Assisting an audit or review client or a related entity 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 registrant. 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. **[2014]**

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:

(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 for the entity or a related entity, that affects the financial statements subject to audit or review by the registrant without obtaining the approval of management of the entity; and

(b) preparing or changing a source document or originating data in respect of any transaction underlying the financial statements subject to audit or review by the registrant. **[2014]**

Whether or not the approval of the management of the entity is obtained, it is not permissible for a member of the firm or a network firm to prepare a source document or originating data, or to make a change to such a document or data, that affects the financial statements subject to audit or review by the registrant.

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 registrant'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 with 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 Financial Reporting 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. **[2014]**

139. A self-review threat may exist when a registrant, network firm or a member of the 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 registrant develops and prepares prospective financial information and subsequently provides assurance on it. Consequently, a registrant 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 or listed entities

140. Subject to Rule 204.4(23) a registrant or network firm may provide an audit or review client or related entity that is not a reporting issuer or listed entity 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 management has determined or approved the appropriate account classification;
- posting transactions to the 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 the client's or related entity's assets; and
- preparing tax receipts for charitable donations or tax information returns, such as T4 slips. **[2014]**

Client approval of journal entries

141. A registrant or network firm may prepare journal entries for an audit or review client or related entity that is not a reporting issuer or listed entity provided management approves and takes responsibility for such journal entries. In obtaining this approval, the registrant 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. **[2014]**

Evaluation of significance of threats

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

- the degree of involvement of the registrant;
- the complexity of the transactions to be accounted for; and
- the extent of professional judgement 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 or related entity to create the source data for the accounting entries;

- requiring the client or related entity 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 practice advisory services department of the Institute. **[2014]**

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 practice advisory services department of the Institute.

Audit clients that are reporting issuers or listed entities

144. Rule 204.4(24) provides that, in other than emergency situations, during either the period covered by the financial statements subject to audit or the engagement period, a registrant 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 listed entity, or of 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:

- maintaining or preparing the entity's, or a related entity's, accounting records;
- 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
- preparing or originating source data underlying such 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.

Rule 204.4(24) permits the provision of such accounting or bookkeeping services by registrant or a network firm, or a member of the firm or a network firm in the event of emergency situations provided that the requirements Rule 204.4(24) are met. Such emergency situations might arise when, due to events beyond the control of the registrant and the client or related entity,

(a) there are no viable alternative resources to those of the registrant with the necessary knowledge of the client's or related entity's business to assist in the timely preparation of its accounting records or financial statements, and

(b) a restriction on the registrant's ability to provide the services would result in significant difficulties for the client or related entity, for example, as might result from a failure to meet regulatory reporting requirements, in the withdrawal of credit lines, or would threaten the going concern status of the client or related entity. Significant difficulties would not be created simply by virtue of the fact that the client or related entity would be required to incur additional costs to engage the services of an alternative service provider.

Registrants are also required by Rule 204.5(b) to document both the rationale supporting the determination that the situation constitutes an emergency and compliance with the provisions of subparagraphs (i) through (iv) of Rule 204.4(24).

Registrants and network firms should fully assess and consider the circumstances that would constitute an emergency situation. Emergencies situations are rare, non-recurring and would arise only when clearly beyond the control of the registrant and the client or related entity. Caution should be exercised when deciding to undertake services under this exception. **[2014]**

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 an amount 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. **[2014]**

146. When a registrant 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. **[2014]**

Audit or review clients that are not reporting issuers or listed entities

147. Unless a valuation is performed for tax purposes only and relates to amounts that will affect the financial statements subject to audit or review by the registrant only through accounting entries related to taxation, Rule 204.4(25)(a) provides that, during either the period covered by the financial statements subject to audit or review or the engagement period, registrant, a network firm or a member of a firm or a network firm may not provide a valuation service to an entity or a related entity if the valuation involves a

significant degree of subjectivity and relates to amounts that are material to the financial statements subject to audit or review by the registrant. **[2014]**

147A Registrants should refer to Guideline 189A when a valuation service is performed for an audit or review client or a related entity for tax purposes only and relates to amounts that will affect the financial statements subject to audit or review by the registrant only through accounting entries related to taxation. **[2014]**

148. Performing a valuation service for audit or review client or a related entity that is not a reporting issuer or listed entity will create a self-review threat when the valuation resulting from the service is incorporated into the financial statements subject to audit or review by the registrant. 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 or related entity's knowledge, experience and ability to evaluate the issues concerned, and the extent of the client's or related entity's involvement in determining and approving significant matters of judgement;
- 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 or related entity 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 or related entity'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. **[2014]**

149. Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different. **[2014]**

150. The independence of a registrant will not be impaired when:

- the firm's valuation specialist reviews the work of an audit or review client or a related entity or a specialist employed by the client or related entity, provided the client, related entity or specialist supplies the technical expertise that the client or related entity 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 or related entity's management or a third-party is the source of the financial information subject to audit or review by the registrant; or
- the valuation service is provided for non-financial reporting purposes only, for example, transfer pricing studies or other valuations that are performed solely for tax purposes. **[2014]**

Audit clients that are reporting issuers or listed entities

151. Unless the valuation is performed for tax purposes only and relates to amounts that will affect the financial statements subject to audit or review by the registrant only through accounting entries related to taxation, Rule 204.4(25)(b) provides that, during either the period covered by the financial statements subject to audit or the engagement period, registrant 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 listed entity, 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. **[2014]**

151A Registrants should refer to Guideline 189A when a valuation service is performed for a client that is a reporting issuer or listed entity, or for a related entity, for tax purposes only and relates to amounts that will affect the financial statements subject to audit or review by the registrant only through accounting entries related to taxation. **[2014]**

Actuarial services to a reporting issuer or listed entity 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 registrant 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 listed entity, or for 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. **[2014]**

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.

Internal audit services to an audit or review client

General provisions

154. A self-review threat may exist when a registrant or network firm provides internal audit services to an audit or review client or a related entity. 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 or related entity's internal audit activities, or outsourcing of the activities. In evaluating any threat to independence, the nature of the service should be considered. **[2014]**

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 or related entity's management. **[2014]**

156. During the course of an audit or review engagement the engagement team considers the client's internal controls 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. **[2014]**

157. *Intentionally left blank.* **[2014]**

158. *Intentionally left blank.* **[2014]**

159. In addition to complying with the requirements of Rule 204.4(27)(a), a registrant should also consider whether internal audit services should be provided to an audit or review client or a related entity only by a registrant or members of the firm not involved in the audit or review engagement and with different reporting lines within the firm. **[2014]**

160. Performing a significant portion of the audit or review client's or related entity's internal audit activities may create a self-review threat and a

registrant or network firm should consider that possibility and proceed with caution before taking on such an activity. **[2014]**

Audit clients that are reporting issuers or listed entities

161. Rule 204.4(27)(b) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a registrant 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 listed entity, 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. **[2014]**

162. Rule 204.4(27)(b) does not prohibit a registrant 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 registrant 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 controls of an audit client that is a reporting issuer or listed entity or a related entity. **[2014]**

Information technology system services to an audit or review client

General provisions

163. The provision of services by a registrant or network firm to an audit or review client or a related entity that involves the design or implementation of financial information technology systems that are, or will be, used to generate information forming part of the client's or the related entity's financial statements may create a self-review threat.

There are, however, some information technology systems services that may not create a threat to independence, provided that the registrant does not make a management decision or perform a management function for the client or the related entity. Such services include the following:

(a) designing or implementing information technology systems that are unrelated to internal controls over financial reporting;

(b) designing or implementing information technology systems that do not generate information forming a significant part of the accounting records or financial statements subject to audit or review by the registrant;

(c) implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm if the customization required to meet the client's or related entity's needs is not significant; and

(d) evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client or related entity. **[2014]**

Audit or review clients that are not reporting issuers or listed entities

164. *Intentionally left blank.* **[2014]**

165. In addition to complying with the requirements of Rule 204.4(28)(a), a registrant should also consider whether financial information systems design and implementation services should be provided to an audit or review client or related entity only by members of the firm who are not involved in the audit or review engagement and with different reporting lines within the firm. **[2014]**

166. *Intentionally left blank.* **[2014]**

167. *Intentionally left blank.* **[2014]**

168. *Intentionally left blank.* **[2014]**

Audit clients that are reporting issuers or listed entities

169. Rule 204.4(28)(b) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a registrant 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 listed entity, 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) directly or indirectly managing the entity's or a related entity's local area network; or

    (c) 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.

    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. **[2014]**

170. Information will be considered to be significant if it is likely to be material to the financial statements. Since materiality determinations may not be complete before the financial statements are prepared, the audit client or related entity and the registrant should evaluate the general nature of the information as well as system output during the period of the audit engagement. **[2014]**

171. Notwithstanding Rule 204.4(28), a registrant 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 listed entity, or a related entity;
- as part of the audit, or another assurance engagement, evaluate and make recommendations to management on the internal controls 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. **[2014]**

Litigation support 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 registrant or network firm or a member of the firm or network firm provides to an audit or review client or related entity, 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 or related entity'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 registrant 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 or related entity'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 registrant or network firm should decline the engagement. **[2014]**

Audit or review clients that are not reporting issuers or listed entities

174. Rule 204.4(29)(a) provides that, during either the period covered by the financial statements subject to audit or review or the engagement period, a registrant or a network firm, or a member of the firm or a network firm, may not provide a litigation support service for an audit or review client, or for a related entity, or for a legal representative thereof, if the amounts involved in the matter are material to the financial statements that are subject to audit or review by the registrant. **[2014]**

Audit clients that are reporting issuers or listed entities

174A Rule 204.4(29)(b) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a registrant or a network firm, or a member of the firm or a network firm, may not provide a litigation support service for an audit client that is a reporting issuer or listed entity, or for a related entity, or for a legal representative thereof. **[2014]**

174B The effect of Rule 204.4(29) is to prohibit, except for the specified circumstances set out in paragraph 202.4(29)(a), a registrant or network firm, or a member of the firm or a network firm, from providing 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. Litigation or other matters frequently escalate to a level, such as a civil, criminal, regulatory, administrative or legislative proceeding or investigation, which creates a self-review or advocacy threat which cannot be reduced to an acceptable level by available safeguards. Accordingly, it is particularly important for registrants to consider initially, and thereafter reconsider periodically, whether the matter in support of which the service is provided is likely to escalate, or has escalated, to such a level. In addition, registrants should discuss, with the audit committee, the possibility that a matter could escalate to such a level and the consequential impact on the registrant's ability to continue to provide the litigation support service or to continue to perform the audit or review engagement. **[2014]**

175. Notwithstanding Rule 204.4(29), a registrant or a network firm, or a member of the firm or a network firm, may be engaged by an audit committee of an audit or review client 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 registrant 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. **[2014]**

176. In an investigation or proceeding for an audit or review client, or for a related entity, the registrant 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 registrant 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 audit or review client. **[2014]**

Legal services to an audit or review client

General provisions

177. A legal service is any service that may only be provided by a person licensed, admitted, or otherwise qualified to practice law in the jurisdiction in which the service is provided. However, where a jurisdiction outside of Canada requires a service to be provided by a person licensed, admitted, or otherwise qualified to practice law in that jurisdiction and the same service could be provided in the relevant jurisdiction in Canada by a person not licensed, admitted, or otherwise qualified to practice law, such a service is not considered to be a legal service. 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. **[2014]**

178. Threats to independence created by the provision of legal services to an audit or review client or related entity 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 financial statements that are subject to audit or review by the registrant. **[2014]**

179. The provision of a legal service which involves matters that would not be expected to have a material effect on the financial statements subject to audit or review by the registrant is not considered to create an unacceptable threat to independence with respect to the engagement to perform the audit or review of those financial statements. **[2014]**

180. The provision of a legal service to support an audit or review client or related entity 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 members of the firm who are not on the engagement team to provide the service;
- ensuring the client or related entity makes the ultimate decision in relation to the advice provided; or
- ensuring the service involves the execution of what has been decided by the client or related entity in relation to the transaction. **[2014]**

Audit or review clients that are not reporting issuers or listed entities

181. Rule 204.4(30) provides that a registrant 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 or related 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 the financial statements subject to audit or review by the registrant. **[2014]**

182. The provision of a legal service to assist an audit or review client or related entity in the resolution of a dispute or litigation may create an advocacy or self-review threat. When a registrant or network firm is asked to act in an advocacy role for the client or related entity 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 or related entity in making management decisions on behalf of the client or related entity; or
    - using members of the firm who are not on the engagement team to perform the particular legal service. **[2014]**

Audit clients that are reporting issuers or listed entities

183. Rule 204.4(31) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a registrant 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 listed entity, or to a related entity. **[2014]**

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 or listed entities

185. Rule 204.4(32) provides that, during either the period covered by the financial statements subject to audit or the engagement period, a registrant, 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 listed entity, 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 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 with respect to hiring a specific candidate for a specific job.

Notwithstanding Rule 204.4(32) a registrant or network firm, or a member of the firm or a network firm may, upon request of the audit client or a related entity, interview candidates and advise the client or related entity on the candidate's competence for financial accounting, administrative or control positions. **[2014]**

Corporate finance and similar services

186. Rule 204.4(33) sets out in paragraphs (a) to (e) the corporate finance and similar services which a registrant may not provide to an audit or review client or a related entity.

Where a registrant has provided advice on corporate finance matters to such a client or entity, Rule 204.4(33)(b) prohibits the registrant from performing the audit or review engagement if:

(a) the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements;

(b) the outcome or consequences of the advice has or will have a material effect on the financial statements; and

(c) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Where the efficacy of implementing such corporate finance advice depends upon a particular accounting treatment or presentation, there may be pressure to adopt an accounting treatment or presentation that is inconsistent with the relevant financial reporting framework. If such an inconsistency were to exist, the registrant would be prohibited from performing the audit or review engagement. Accordingly, where the circumstances set out in (a) exist the registrant must review the materiality of the effect of the advice and the appropriateness of the related accounting treatment and presentation with the audit or review engagement team as soon as possible prior to completion of the corporate finance advisory service. **[2014]**

187. Corporate finance services other than those that are prohibited by Rule 204.4(33) 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 a safeguard might be using members of the firm who are not part of the engagement team to provide the services. **[2014]**

Tax Services

General provisions

188. Tax services usually include:

- preparation of tax returns;
- preparation of valuations for tax purposes;
- provision of tax planning and similar tax advisory services on such matters as how to structure business affairs in a tax efficient manner or on the application of tax laws or regulations;
- provision of tax advocacy services with respect to tax disputes; or
- preparation of tax calculations for the purpose of preparing accounting entries.

188A The provision of tax services may create a self-review threat where the advice or other service affects or will affect the financial statements subject to audit or review by the registrant, or an advocacy threat where the services involve resolution of a tax dispute with tax authorities. The existence and significance of any threat will depend on factors such as:

- the nature of the tax service that is provided;
- the degree of subjectivity involved in determining the appropriate treatment of tax advice in the financial statements;
- the extent to which the outcome of the tax service has or will have a material effect on the financial statements subject to audit or review by the registrant ;
- the level of tax expertise of the client's employees;
- the extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

Providing tax planning advice where the advice is clearly supported by tax authorities or other precedent, by established practice or has a basis in tax law that is likely to prevail does not ordinarily create a threat to independence, unless the circumstances described in Rule 204.4(34)(a) exist. **[2014]**

188B The significance of any threat should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. Examples of such safeguards include:

- using professionals who are not members of the assurance engagement team to perform the tax service;
- having a tax professional, who was not involved in providing the tax service, advise the assurance engagement team on the service and review the financial statement treatment;
- obtaining advice on the service from an external tax professional; and
- obtaining pre-clearance or advice from the tax authorities. **[2014]**

Provision of specific tax services

Preparation of tax returns

189. Tax return preparation services may involve assisting an audit or review client with its tax reporting obligations by drafting and completing information, including the amount of tax due, as reported on prescribed forms, and as required to be submitted to the applicable tax authorities. Such tax returns are subject to audit or other review by tax authorities. Accordingly, the provision of such services does not ordinarily create a threat to independence

provided that management takes responsibility for the returns including any significant judgements made. **[2014]**

Preparation of valuations for tax purposes

189A A firm may be requested to perform a valuation to assist an audit or review client or a related entity with its tax reporting obligations or for tax planning purposes.

(a) Rule 204.4(25) permits the provision of certain valuation services for tax purposes only. Where the valuation is performed for tax purposes only and the valuation relates to amounts that will affect the financial statements subject to audit or review by the registrant only through accounting entries related to taxation, a threat to independence would not ordinarily be created if the amounts related to the valuation are not material to such financial statements or if the valuation is subject to external review at the discretion of a tax authority or similar regulatory authority.

(b) However, a valuation service referred to in paragraph (a) that is not subject to such an external review and which results in amounts that are material to the financial statements subject to audit or review by the registrant, may create a threat to independence. The existence and significance of any threat created will depend upon factors such as:

- the extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation; and
- the reliability and extent of the underlying data.

The significance of any threat created should be evaluated and, if it is other than clearly insignificant, safeguards should be applied to reduce it to an acceptable level. **[2014]**

Provision of tax planning or other tax advisory services

189B Registrants often provide tax planning or advisory services in order to create tax-efficient outcomes for their clients. Where a registrant has provided tax planning or other tax advice to an audit or review client or a related entity, Rule 204.4(34)(a) prohibits the registrant from performing the audit or review engagement if:

(a) the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements;

(b) the outcome or consequences of the advice has or will have a material effect on the financial statements; and

(c) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Where the efficacy of implementing such tax planning or other tax advice depends upon a particular accounting treatment or presentation there may be pressure to adopt an accounting treatment or presentation that is inconsistent with the relevant financial reporting framework. If such an inconsistency were to exist, the registrant would be prohibited from performing the audit or review engagement. Accordingly, where the circumstances set out in (a) exist, the registrant must review the materiality of the effect of the tax planning or other tax advice and the appropriateness of the related accounting treatment or presentation with the audit or engagement team as soon as possible prior to completion of the tax planning or other tax advisory service. **[2014]**

Provision of tax advocacy services

189C Tax advocacy services generally involve assisting a client in the resolution of a disputed tax matter with tax authorities. Such services may involve the provision of litigation support services, legal services or both. Accordingly, registrants should evaluate whether the provision of such a tax advocacy service involves the provision of a service that would be prohibited pursuant to Rules 204.4(29)(a) or (b), (30) or (31).

Audit or review clients that are not reporting issuers or listed entities

Rules 204.4(29)(a) and (30) do not preclude registrants from providing a tax advocacy service that involves assistance in the resolution of a dispute with a tax authority to an audit or review client that is not a reporting issuer or listed entity and where the assistance does not involve acting as an advocate before a public tribunal or court.

Registrants are also not precluded by Rules 204.4(29)(a) and (30) from providing a tax advocacy service that involves assistance in the resolution of a dispute with a tax authority to an audit or review client that is not a reporting issuer or listed entity where the assistance involves acting as an advocate before a public tribunal or court provided that the disputed matter involves amounts that are not material to the financial statements subject to audit or review by the registrant.

Rules 204.4(29)(a) and (30) do not preclude registrants from responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues.

Audit clients that are reporting issuers or listed entities

Rules 204.4(29)(b) and (31) do not preclude registrants from providing a tax advocacy service that involves assistance in the resolution of a dispute with a tax authority to a reporting issuer or listed entity audit client and where the assistance does not involve acting as an advocate before a public tribunal or court.

Pursuant to Rules 204.4(29) and (31), registrants may not provide a tax advocacy service that involves assistance in the resolution of a dispute with a tax authority to a reporting issuer or listed entity audit client and where the assistance involves acting as an advocate before a public tribunal or court whether or not the amounts involved are material to the financial statements subject to audit or review by the registrant.

Rules 204.4(29)(b) and (31) do not preclude registrants from responding to specific requests for information or providing factual accounts or testimony about the work performed.

Registrants are cautioned that an engagement to provide a permitted tax advocacy service may, in its performance, escalate to a point where the advocacy or self-review threat so created cannot be reduced to an acceptable level by the application of safeguards. Accordingly, the guidance in Guideline 174B applicable to litigation support services may also be helpful when considering the provision of tax advocacy services. One of the factors that impacts the significance of any such threat created is whether the tax advocacy service involves acting as advocate before a public tribunal or court, which for this purpose is an adjudicative body that is independent of the tax authority. **[2014]**

Preparation of tax calculations for the purpose of preparing accounting entries for a reporting issuer or listed entity

189D Rule 204.4(34)(b) permits, in the event of an emergency situation and under specified conditions, a registrant to prepare tax calculations of current and future tax liabilities or assets for a reporting issuer or listed entity audit client or a related entity for the purpose of preparing accounting entries that are subject to audit by the registrant. Such emergency situations might arise when, due to events beyond the control of the registrant and the client or related entity,

(a) there are no viable alternative resources to those of the registrant with the necessary knowledge of the client's or related entity's business to assist in the timely preparation of such tax calculations, and

(b) a restriction on the registrant's ability to provide the services would result in significant difficulties for the client or related entity, for example, as might result from a failure to meet regulatory reporting requirements, in the withdrawal of credit lines, or would threaten the going concern status of the client or related entity. Significant difficulties would not be created simply by virtue of the fact that the client or related entity would be required to incur additional costs to engage the services of an alternative service provider.

Registrants are also required by Rule 204.5(c) to document both the rationale supporting the determination that the situation constitutes an emergency and compliance with the provisions of subparagraphs (i) through (iv) of Rule 204.4(34)(b).

Registrants and network firms should fully assess and consider the circumstances that would constitute an emergency situation. Emergency situations are rare, non-recurring and would arise only when clearly beyond the control of the registrant and the client or related entity. Caution should be exercised when deciding to undertake services under this exception. **[2014]**

M. FEES AND PRICING

Fees – Pricing

190. Rule 204.4(36) provides that a registrant may not provide an assurance service at a fee level that the registrant knows is significantly lower than that charged by the predecessor registrant, or contained in other proposals for the engagement, unless the registrant can demonstrate that the engagement will be performed properly by qualified staff and in accordance with all applicable professional standards. **[2014]**

Fees – Relative size

191. When the total fees generated from an assurance client represent a significant proportion a registrant'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 registrant 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; or
- consulting a third party, such as a professional regulatory body or a professional colleague who is not a member of the firm. **[2014]**

Relative size of fees of a reporting issuer or listed entity audit client

191A Rule 204.4(37)(a) provides that, unless specified measures are taken, a registrant may not perform an audit engagement for a client that is a reporting issuer or listed entity, when, for the two consecutive fiscal years of the firm most recently concluded prior to the date of the financial statements subject to audit by the registrant, the total revenue, calculated on an accrual basis, for services provided to that client and its related entities represent more than 15% of the total revenue of the firm, calculated on an accrual basis, in each such fiscal year. The measures required to be taken by the rule are:

- disclosing, to the audit committee, that the revenue exceeds the 15% threshold, and
- completion, by another professional accountant who is not a member of the firm, of either a “pre-issuance” or “post-issuance” review of the audit engagement.

The rule requires that either such review be substantially equivalent to an engagement quality control review. In the case of a “pre-issuance” review, the review is to be completed prior to the audit opinion in respect of the financial statements being issued. A “post-issuance” review may be completed after the audit opinion in respect of the financial statements has been issued but prior to the audit opinion on the client’s financial statements for the immediately following fiscal period being issued.

The rule also requires the performance of a “pre-issuance” review if the total revenue, calculated on an accrual basis, for any services provided to the client continue to represent more than 15% of the total revenue of the firm, calculated on an accrual basis, in the firm’s most recently concluded fiscal year. **[2014]**

191B Rule 204.4(37)(b) provides that a registrant may not accept an engagement to perform the “pre-issuance” or “post-issuance” review required by Rule 204.4(37)(a)(ii) if any of the provisions of Rule 204 would prevent the registrant from performing the audit of the financial statements referred to in Rule 204.4(37)(a). **[2014]**

Fees — Overdue

192. 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 the 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 continue to provide assurance services to that client. **[2014]**

N. EVALUATION AND COMPENSATION OF ENGAGEMENT TEAM

General provisions

193. Evaluating or compensating a member of the engagement team for an audit or review client for selling non-assurance services to that audit or review client, 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, and
- 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; or
- being subject to external practice review. **[2014]**

194. Rule 204.4(38) provides that a member who is a key audit partner with respect to an audit or review engagement may not be evaluated or compensated based on such a partner selling to the audit or review client or a related entity, any product or service other than an assurance service. **[2014]**

195. Notwithstanding the above, such a key audit partner may be evaluated or compensated in relation to performing such services and may share in the profits of the audit practice and the profits of the firm. Such a partner's evaluation may take into account a number of factors, including 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 goals for the sale of assurance services to a client for which the partner is a key audit partner or for the sale of any services to a client for which the partner is not a key audit partner.

Registrants should consider documenting their evaluation and compensation processes and systems in order to demonstrate compliance with the requirements of Rule 204.4(38). **[2014]**

O. CONTINGENT FEES

196. Registrants are referred to Rule 215 and the related Guideline.

P. GIFTS AND HOSPITALITY

197. Rule 204.4(39) provides that a firm, or a registrant 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. **[2014]**

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, or other governance body if there is no audit committee, the extent and nature of the litigation;
- removing from the engagement team any person involved in the litigation; or
- 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 registrant to withdraw from, or refuse to accept, the assurance engagement. **[2014]**

199. Registrants are cautioned that actual litigation often results in a conflict of interest between the client and the registrant which will preclude the registrant 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, registrants should refer to Rule 210 and the related Guideline, 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.

R. CLIENT MERGERS AND ACQUISITIONS

200. Where, as a result of a merger or acquisition, another entity merges with or becomes a related entity of an audit or review client, the existence of a previous or current activity, interest or relationship with the other entity may impair the registrant's independence in relation to the audit or review engagement. Independence may be impaired either by a specific prohibition established by Rule 204.4 or from threats to independence which could not be reduced to an acceptable level by applying appropriate safeguards in accordance with Rule 204.3. **[2014]**

200A Rule 204.4(40) permits, in specified circumstances, a registrant to perform or continue with an audit or review engagement in a situation where the existence of such an activity, interest or relationship would otherwise impair the independence of the registrant and require the registrant to resign from the audit or review engagement. **[2014]**

200B Rule 204.4(40)(a)(i) permits the registrant to perform or continue with the audit or review engagement if the particular activity, interest or relationship is terminated by the effective date of the merger or acquisition. **[2014]**

200C Rule 204.4(40)(a)(ii) permits the registrant to perform or continue with the audit or review engagement if the particular activity, interest or relationship is terminated as soon as reasonably possible, and in all cases, within six months of the merger or acquisition and if the provisions of Rule 204.4(40)(b) are met. For this purpose, "as soon as reasonably possible" means as soon as practicable, having regard to the nature of the activity, interest or relationship and the consequential impact of the termination of the activity, interest or relationship on the client. **[2014]**

200D Rule 204.4(40)(a)(iii) permits the registrant to perform or continue with the audit or review engagement if the registrant has completed a significant amount of work on the audit or review engagement and expects to complete the engagement within a short period of time, does not continue as the audit or review service provider beyond the completion of the engagement, either by the registrant's own choice or by being replaced by the client, and if the provisions of Rule 204.4(40)(b) are met. **[2014]**

200E Where the activity, interest or relationship that would impair independence is not terminated by the effective date of the merger or acquisition, Rule 204.4(40)(b) describes the circumstances in which the registrant may perform or continue with the audit or review engagement, including a requirement that the registrant apply an appropriate measure or measures, as discussed with the audit committee. Examples of such a measure or measures are:

- having another public accountant review the audit or review or any relevant non-assurance work as appropriate;

- engaging another firm to evaluate the results of any relevant non-assurance service or to re-perform any relevant non-assurance service to the extent necessary to enable it to take responsibility for the service; and
- having another professional accountant, who is not a member of the firm performing the audit or review engagement, perform a review that is equivalent to an engagement quality control review. **[2014]**

200F Rule 204.4(40)(c) provides that even if all of the other requirements of the rule are met, where an activity, interest or relationship creates such a significant ongoing threat to independence that compliance with paragraphs 204.4(40)(a) and (b) will still not reduce the threat to an acceptable level, the registrant is required to resign from the particular audit or review engagement. In determining whether the activity, interest or relationship continues to create such a significant threat that the registrant would be required to resign, consideration should be given to:

(a) the nature and significance of the activity, interest or relationship;

(b) the extent, if any, to which the activity, interest or relationship continues to affect the financial statements subject to audit or review by the registrant;

(c) the nature and significance of the new relationship with the other entity, for example, whether that other entity becomes a parent, a subsidiary or the client itself; and

(d) the adequacy of the actions taken, as described in Rule 204.4(40)(b), to address the activity, interest or relationship. **[2014]**

In addition, registrants are reminded of the requirement pursuant to Rule 202.2 to perform professional services with an objective state of mind.

200G Registrants are also required by Rule 204.5(f) to document:

(a) a description of the activity, interest or relationship that will not be terminated by the effective date of the merger or acquisition and the reasons why it will not be terminated;

(b) the results of the discussion with the audit committee and measures applied to address the threat created by any such activity, interest or relationship; and

(c) the rationale to support the decision of the registrant. **[2014]**

Ineligibility Provision - Statutory

201. The Act lists a number of persons (hereinafter referred to as “ineligible persons”) who cannot act as auditors for a registered party or 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.

202. 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

203. 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. These guidelines, therefore, set 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.

204. 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 provision of the Act to be given practical effect. Accordingly, these guidelines seek 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

205. "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

206. 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; or

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 public accounting firm of which that member is a partner may not act as auditor of that candidate.

As noted in Paragraph 201, 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 paragraph 206 (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

207. 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

208. Generally, members contemplating acting as auditors for registered parties, candidates, associations or contestants should be alert to any circumstances not described in these guidelines, which may place the firm 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 judgement 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 public accounting 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.

204.8 Independence: Insolvency Engagements

A registrant 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 registrant, firm or 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 judgement or objectivity of the registrant, firm and members of the firm or which, in the view of a reasonable observer, would impair the professional judgement or objectivity of the registrant, firm and members of the firm. ***[2014]***

GUIDELINES TO 204.8 – Insolvency Engagements

Registrant Acting As Trustee Under The *Bankruptcy And Insolvency Act*, Or As Liquidator, Receiver Or Receiver/Manager.

1. Rule 204.8 deals with objectivity and independence in insolvency practice. This guideline sets out how, in Council's opinion, a reasonable observer might be expected to view certain situations related to insolvency practice. **[2014]**

2. A registrant, firm, members 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 registrant, firm or member of the firm, provided that any of the foregoing may acquire assets from a retail operation under administration of the registrant or firm where those assets are available to the general public for sale and no special treatment or preference over and above that granted to the public is offered to or accepted by the registrant, firm or members of the firm and their respective immediate families.

3. A registrant 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 registrant 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 counsel, or a partner or an employee of the auditor, accountant or legal counsel of the debtor.

   For purposes of this guideline, the term "accountant" means any registrant who has performed a review engagement with respect to the financial statements of the debtor in accordance with the *CICA Handbook – Assurance*. **[2011]**

4. Where a conflict of interest may exist, or may appear to exist, a registrant or 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 registrant 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 registrant 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 registrant 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 registrant or firm 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 registrant 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 registrant 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 and Restructuring Act*, or trustee under the *Bankruptcy and Insolvency Act* in respect of any corporation where the registrant 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 registrant or firm 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 registrant 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 registrant or firm engaged in insolvency practice should ensure there are no relationships with retired partners which may be seen to impair the registrant's or firm's independence. Refer to paragraph 29 of the guidelines in respect of Rules 204.1 to 204.7.

204.9 Disclosure of Impaired Independence

A registrant engaged in a public accounting practice or in 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 registrant's independence such that the professional *judgement or objectivity of the registrant, firm or member of the firm would appear to be impaired, and such disclosure shall be made in the registrant'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.* ***[2014]***

GUIDELINES TO 204.9 –Independence – Disclosure of Impairment of Independence

Professional Services, Other Than Assurance or Specified Auditing Procedures and Insolvency Engagements

1. Registrants who provide a professional service which does not require the registrant to be independent are required by Rule 204.9 to disclose any activity, interest or relationship which, in respect of the professional service, would be seen by a reasonable observer to impair the registrant's or firm's independence. Registrants should refer to Rules 204.1 to 204.8 and the related guidelines when determining whether they must be independent and would appear to be independent with respect to particular engagements. **[2014]**
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. **[2009]**
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 204.9 applies. **[2014]**
4. For the purposes of Rule 204.9 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 Guidelines to Rule 204.1 to 204.7. **[2014]**
5. Tax return services may require disclosure in respect of some of the information filed with the return. If the return simply involves the assembling and reporting of information provided by the taxpayer, the registrant has simply processed that information and disclosure should not be necessary. **[2003]**
6. Registrants are cautioned that disclosure under Rule 204.9 does not relieve them from their obligation to comply with the Rules of Professional Conduct and in particular Rules 201, 202, 205 and 206. **[2014]**

Definitions

For the purposes of Rules 204.1 to 204.9 and the related Guidelines:

- ***"accounting role"*** means a role in which a person is in a position to or does exercise more than minimal influence over:

  a) the contents of the client's accounting records related to the financial statements subject to audit or review by the registrant; or

  b) anyone who prepares such financial statements.

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

- ***"assurance engagement"*** means an assurance engagement as contemplated in the *CPAC Handbook – Assurance*. For the purpose of Rule 204.4, "assurance engagement" also includes a specified auditing procedures engagement as contemplated by the *CPAC Handbook – Assurance.*

- ***"audit client"*** means an entity in respect of which a registrant 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, or those charged with governance of the entity.

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

- ***"audit partner"*** means a person who is a partner in a firm or a person who has equivalent responsibility, who is a member of the engagement team, 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.

- ***"clearly insignificant"*** means trivial and inconsequential.

- ***"close family member"*** means a parent, child or sibling who is not an immediate family member.

"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 or ability to influence investment decisions; or

c) owned through an investment club or by a private mutual fund in which the individual participates in the investment decisions.

"engagement period" means the period that starts at the earlier of the date when the registrant signs the engagement letter or commences procedures in respect of the engagement and ends when the assurance report is issued, except when the engagement is of recurring nature, in which case the engagement period ends with:

a) notification by either the client or the firm that the professional relationship has terminated or the issuance of the final assurance report, whichever is later; or

b) in the case of an audit engagement for a reporting issuer or listed entity, notification by either the client or the firm to the relevant Securities Commission that the audit client is no longer an audit client of the firm.

- ***"engagement quality control reviewer"*** often referred to as reviewing, concurring or second partner, means the audit partner or other person in the firm who, prior to issuance of the audit report, provides an objective evaluation of the significant judgements made and conclusions reached by the members of the engagement team in formulating the report on the engagement.
- ***"engagement team"*** means:

  a) each member of the firm performing 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 role in which a person is in a position to or does exercise influence over:

  a) the contents of the financial statements subject to audit or review by the registrant; 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 a public accounting practice or carries or carry on a related business or practice as defined by the Council. A related business or practice, as defined by Bylaw 100 (ddd), is considered to be part of the firm.

- ***"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 member"*** means a spouse (or equivalent) or dependent.

- ***"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 or ability to influence investment decisions.

"key audit partner" means:

  a) an audit partner who is the lead engagement partner;

  b) the engagement quality control reviewer; or

  c) any other audit partner on the engagement team who makes important decisions or judgements on significant matters with respect to the audit or review engagement.

- ***"lead engagement partner"*** means the partner or other person who is responsible for the engagement and its performance, for the report that is issued on behalf of the firm and who, where required, has the appropriate authority from a professional, legal or regulatory body.

"legal service" means any service that may only be provided by a person licenced, admitted, or otherwise qualified to practice law in the jurisdiction in which the service is provided. If a jurisdiction outside of Canada requires a service to be provided by a person licenced, admitted, or otherwise qualified to practice law in that jurisdiction and the same service could be provided in the relevant jurisdiction in Canada by a person not licenced, admitted or otherwise qualified to practice law, the provision of the service in the jurisdiction outside Canada shall not be considered a legal service.

"listed entity" means an entity whose shares, debt or other securities are quoted on, listed on or marketed through a recognized stock exchange or other equivalent body, whether within or outside of Canada, other than an entity that has, in respect of a particular year, market capitalization and total assets that are each less than $10,000,000. An entity that becomes a listed entity 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 listed entity thenceforward unless and until the entity ceases to have its shares 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.

- ***"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 quarter 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 the firm, but does not include an external expert possessing skills, knowledge and experience in a field other than accounting or auditing whose work in that field is used to assist the registrant in obtaining sufficient appropriate evidence;

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; or

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 that is, or that a reasonable observer would conclude to be, part of a larger structure of co-operating entities that shares:

a) common quality control policies and procedures that are designed, implemented and monitored across the larger structure;

b) common business strategy that involves agreement to achieve common strategic objectives;

c) the use of a common brand name, including the use of common initials and the use of the common brand name as part of, or along with, a firm name when a partner of the firm signs an audit or review engagement report; or

d) professional resources, such as:

i) common systems that enable the exchange of information such as client data, billing or time records;

ii) partners and staff;

iii) technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;

iv) audit methodology or audit manuals; or

v) training courses and facilities,

where such professional resources are significant.

- ***"office"*** means a distinct sub-group of a firm, whether organized on geographical or practice lines.
- ***"related entity"*** means any one of the following:

a) in the case of an engagement to audit the financial statements of a client that is a reporting issuer or listed entity:

i) an entity over which the client has control;

ii) an entity that has control over the client, provided that the client is material to such entity;

iii) an entity that has significant influence over the client, provided that the client is material to such entity;

iv) an entity which is under common control with the client, provided that such entity and the client are both material to the controlling entity;

v) an entity over which a client has significant influence, provided that the entity is material to the client;

b) in the case of an engagement to audit or review the financial statements of a client that is not a reporting issuer or listed entity:

i) an entity over which the client has control; or

ii) any of the following entities where the engagement team knows or has reason to believe that the existence of an activity, interest or relationship involving the registrant and that other entity is relevant to the evaluation of the independence of the registrant with respect to the audit or review of the financial statements of the client

A. an entity that has control over the client, provided that the client is material to such entity;

B. an entity that has significant influence over the client, provided that the client is material to such entity;

C. an entity which is under common control with the client, provided that such entity and the client are both material to the controlling entity;

D. an entity over which a client has significant influence, provided that the entity is material to the client; and

c) in the case of an assurance engagement that is not an engagement to audit or review the financial statements of a client, any of the following entities where the engagement team knows or has reason to believe that the existence of an activity, interest or relationship involving the registrant and that other entity is relevant to the evaluation of the independence of the registrant with respect to the assurance engagement:

i) an entity over which the client has control

ii) an entity that has control over the client, provided that the client is material to such entity;

iii) an entity that has significant influence over the client, provided that the client is material to such entity;

iv) an entity which is under common control with the client, provided that such entity and the client are both material to the controlling entity; or

v) an entity over which a client has significant influence, provided that the entity is material to the client.

- **"reporting issuer"** means an entity that is defined as 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 of 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 registrant 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 *CPAC Handbook – Assurance.*
- ***"specified auditing procedures engagement"*** means an engagement to perform specified auditing procedures contemplated in the *CPAC Handbook – Assurance*.
- ***"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. **[2014]**

Effective Date and Transitional Provisions

A. Effective Date

Rules 204.1 to 204.9 shall take effect:

a) for an assurance engagement in respect of a particular reporting period of a client, for the first reporting period commencing after December 15, 2014; and

b) for any other assurance engagement and an engagement to issue a report of the results of applying specified auditing procedures where the engagement is commenced after December 15, 2014,

subject to the following transitional provisions, as may be applicable.

B. Provision of Litigation Support Services

The litigation services referred to in 204.4(29)(a) do not include a service that has not been completed before July 1, 2014 where:

a) there exists on June 30, 2014 a binding contract for the registrant to provide the service; and

b) the provision of the service by the registrant would not have contravened the provision of Rule 204.1 as it read prior to July 1, 2014.

C. Key Audit Partner Rotation

Notwithstanding the requirements of 204.4(20), where the application of the definition of "key audit partner" which takes effect pursuant to the effective date established by A. above has the effect of requiring the rotation of a person who would not have been subject to rotation based on the definition of "audit partner" in effect immediately prior to that effective date, that person may continue to participate in the audit of the financial statements of the particular client up to and including the audit engagement for the second fiscal year of the client commencing after December 15, 2014. **[2014]**

205 FALSE OR MISLEADING DOCUMENTS AND ORAL REPRESENTATIONS

A registrant shall not:

a) *sign or be associated with any letter, report, statement, representation or financial statement which the registrant 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 be associated with any oral report, statement or representation which the registrant knows, or should know, is false or misleading.* ***[2001]***

GUIDELINES TO 205 – False or Misleading Documents And Oral Representations

1. A registrant who is not in public practice is subject to Rule 205 just as is the registrant in public practice. It is recognized that this may place such a registrant in a difficult position vis-à-vis the organization employing the registrant or entities engaging the registrant's services. However, professional duty prohibits a registrant from being associated with financial statements or other information, whether written or oral, which the registrant knows, or should know, to be false or misleading. **[2001]**
2. When a registrant finds it necessary to become disassociated from false or misleading information, it would be prudent for the registrant to consider obtaining legal advice. **[2004]**

206 COMPLIANCE WITH PROFESSIONAL STANDARDS

206.1 A registrant engaged in a public accounting practice shall perform professional services in accordance with generally accepted standards of practice of the profession. ***[2003]***

206.2 A registrant 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. ***[2003]***

206.3 A registrant 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 registrant's own career. ***[2003]***

GUIDELINES TO 206 – Compliance With Professional Standards

Generally Accepting 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 judgement in determining whether financial statements are presented fairly in accordance with generally accepted accounting principles. In this regard, the registrant 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. **[2011]**
3. Where no primary source of generally accepted accounting principles exists, the registrant 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 judgement in such situations, registrants 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 or primary sources of generally accepted accounting principles. Registrants should consider whether it is likely that most parties, exercising professional judgement, 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." **[2011]**
4. Registrants should document the results of research undertaken and any other considerations influencing the registrant's choice or acceptance of accounting policies and interpretation of generally accepted accounting principles.

Public Accounting Practice

5. Rule 206.1 requires a registrant engaged in a public accounting practice 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 registrant belongs; and
   - requirements of relevant federal and provincial statutes.
6. Registrants engaged in a public accounting practice 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. Registrants 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 registrant 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 registrant 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 registrant continues to believe that the financial statements have not been presented fairly in accordance with generally accepted accounting principles, the registrant 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 registrant for a reasonable period of time.
9. Before communicating with one of the firm's senior partners, the registrant referred to in Paragraph 8, should consider:
   a) whether the concern results in a material misstatement of the financial statements;

b) whether the registrant possesses sufficient expertise and knowledge of the circumstances; and

c) whether the registrant 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 registrant 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 registrant may obtain advice and counsel from others.

11. Rule 206.2 applies to those registrants 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 registrant's responsibility or oversight may be limited to a component of the financial statements, in which case Rule 206.2 applies to that registrant in respect of the accounting principles applicable to that component of the financial statements as well as to the registrant 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 registrant 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 registrant having responsibility for or oversight of a particular component of the financial statements.

12. A registrant 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 registrant continues to believe the presentation is not appropriate, the registrant 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 registrant 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 registrant should consider obtaining legal advice.

13. Before communicating with the audit committee, board of directors or the entity's assurance provider, the registrant referred to in Paragraph 12 should consider matters including:

    a) whether the concern results in a material misstatement of the financial statements;

    b) whether the registrant possesses sufficient expertise or knowledge of the circumstances; and

    c) whether the registrant should first discuss the matter with a more senior employee of the entity.

14. A registrant 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 registrant prepares or approves financial statements, which are

    a) prepared solely for internal use within the entity; or

    b) 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 registrant 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 registrant'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 registrant is competent is necessarily a question of fact at a point in time. Competency does not require a registrant 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 registrant to act as a professional advisor to the audit committee or board. However, it does require the registrant to identify and raise the issues that should be discussed by the audit committee or board of directors, as noted below.

    A registrant 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 registrants who sit on an audit committee or board of 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 judgements 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 accepted accounting principles and the resolution thereof;

c) the assurance provider's conclusions regarding the reasonableness of the estimates made by management and the basis therefore; and

d) the independence of the assurance provider.

In addition to the above, a registrant 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.

Registrants who are directors of entities should be familiar with the applicable requirements of regulatory bodies and other authoritative pronouncements on corporate governance matters. **[2011]**

All Registrants

16. Registrants 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 registrant (Rule 211.1); and

b) not to sign or associate with any financial statement that the registrant knows, or should know, is false or misleading (Rule 205).

207 UNAUTHORIZED BENEFITS

A registrant shall not, in connection with any transaction involving a client or an employer, 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. ***[2004]***

GUIDELINES TO 207 – Unauthorized Benefits

Glossary

1. 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.

2. 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.

3. 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.

4. 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 registrant has legal obligations to the employer that includes a duty of confidentiality. The rule imposes a duty of confidentiality as a professional obligation, which is in addition to the registrant's legal obligation to the employer.

5. 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 registrant's judgement or objectivity in the conduct of the engagement.

6. 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.

7. 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.

8. 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.

9. 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.

208 CONFIDENTIALITY OF INFORMATION

208.1 *A registrant 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, a discipline tribunal, an appeal tribunal, the complaints inquiry committee, the CIC secretary, an investigator, a person conducting a practice review under part 4 of the Act or the practice review committee established under section 53 of the Act; or*

d) *when justified for the defence of the registrant or the registrant's associates or employees, as the case may be, against any lawsuit or other legal proceeding or against alleged unprofessional conduct 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.* ***[2004]***

208.2 *A registrant 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 registrant;*

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. ***[2004]***

208.3 *A registrant engaged to perform a particular service may contract for the services of a person not employed by the registrant to assist in the performance of that service, provided the registrant 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.* ***[2002]***

GUIDELINES TO 208 – Confidentiality of Information

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. **[2004]**
2. The duty of confidentiality does not excuse a registrant from complying with a legal requirement to disclose the information. However, the courts have held that a registrant faced with a subpoena or other request to disclose information should be aware of the registrant's obligation to bring to the attention of the court or other authority the registrant'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. **[2004]**
3. A registrant will not be in contravention of any rule governing confidentiality by reason of obtaining legal advice with respect to the duty of confidentiality. **[2004]**
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. Registrants 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.

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 registrant who is providing a professional opinion on a matter may wish to seek the advice of another member of the firm. **[2004]**

5. Where appropriate, registrants should also inform clients and potential clients that the use of institutional mechanisms, which safeguard their confidential information, necessarily means that a registrant serving a particular client may not be aware of information that is confidential to another client, which would assist the registrant's client and advance that client's interest. **[2002]**

209 BORROWING FROM CLIENTS

209.1 A registrant shall not, directly or indirectly, borrow from or obtain a loan 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.*

209.2 Rule 209.1 does not apply to:

a) the financing of a bona fide business venture between a registrant 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 registrant to the client; or

c) a loan received from a member's or student's employer. ***[2010]***

209.3 For purposes of Rule 209.1, a client includes a person or entity who has, within the previous two years, engaged the registrant to provide a service and who relies on membership in the Institute as giving the registrant particular competence to provide that service. ***[2010]***

GUIDELINES TO 209 – Borrowing From Clients

1. It is a fundamental principle of the profession that registrants provide advice to their clients that is free of prejudice, conflict of interest or undue influence that may impair sound professional judgement. When a registrant borrows money from a client, there is an inherent conflict between the interests of the registrant and those of the client. Accordingly, registrants who 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:

   a) 201 – Maintenance of reputation of profession

   b) 202 - Integrity, due care and objectivity;

   c) 204 – Independence;

   d) 208 – Confidentiality of information; and

   e) 210 - Conflict of interest. **[2011]**

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 in the firm or an entity over which a family member of a partner or shareholder in the firm exercises significant influence. **[2010]**

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. **[2010]**

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 registrant 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. **[2010]**

210 CONFLICT OF INTEREST

210.1 *A registrant engaged in a public accounting practice 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.* ***[2002]***

210.2 *Subject to the provisions of Rule 210.3, a registrant 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 registrant:*

a) is in a position or has placed any other 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 public accounting firm to another client. ***[2002]***

210.3 *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 registrant must decline the proposed engagement, or withdraw from all existing engagements that are affected, unless:*

a) (i) the registrant 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 registrant informs all affected clients of the existence of the conflict and the techniques that will be used to manage it; and

(iii) the registrant 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 registrant to accept or continue the engagement is implied by *their conduct, in keeping with common commercial practice.* ***[2002]***

210.4 For purposes of Rule 210, a client includes any person or entity for whom the registrant or any other person engaged in a public accounting practice or a related business or practice in association with the registrant, provides or is engaged to provide a professional service. ***[2002]***

GUIDELINES TO 210 – Conflict of Interest

Identifying Conflicts

1. Rules 210.1 and .2 together require registrants 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 registrant 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 registrant's firm or practice generally arise in three broad types of circumstance described as follows.

<u>Public Practice Objectivity Issues</u>

As provided in Rule 204 and the related Guideline, 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, registrants should refer to Rule 204 and the related Guideline for more complete guidance in determining objectivity.

<u>Protecting Confidentiality of Client Information</u>

As provided in Rule 208 and the related Guideline, registrants 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.

<u>Pursuit of Clients' Interests</u>

Registrants have an obligation to all of their clients to provide professional services with integrity and due care. Since registrants will have a number of clients, they may encounter conflicting client interests when fulfilling their obligations to each client. While a registrant 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 judgement 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 registrant must also consider whether the conflict can be managed appropriately. **[2004]**

Common Commercial Practice

2. 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 registrants 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.

Other Conflicts

<u>Appropriate Management of Conflicts</u>

3. 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. **[2002]**

Conflicts Encountered by Professional Service Area

4. Registrants 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 registrant is asked to conduct an engagement in a situation that is potentially adversarial, even though the parties who engage the registrant may be in accord initially.

   Therefore, registrants 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 registrants in the significant areas of professional practice.

<u>Assurance Services</u>

a) A registrant 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 registrant may possess confidential information obtained from one assurance client that is important to the fulfillment of the assurance engagement of a second client. For example, a registrant may learn during the course of an assurance engagement that the assurance client is in serious financial difficulty. If the registrant 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 registrant 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 registrant has a conflict of interest that must be resolved.

In such circumstances, the registrant is expected to use reasonable efforts to obtain the confidential information from other sources, and if this is not possible, the registrant should seek legal advice.

c) A registrant 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 registrant 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 duty is to the shareholders as a group and not to individual shareholders, such a request would present a conflict.

f) Registrants should refer to Rule 204 and the related guidelines for guidance on conflicts that may affect independence and objectivity with respect to an assurance engagement.

Taxation Services

g) 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 the practitioner's 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.

h) A registrant 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.

i) A tax practitioner may obtain only the information that relates to that specific tax 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 registrant'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:

j) 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.

k) 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.

l) 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

m) 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.

A registrant 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 to regularly 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.

n) 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

o) 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 in 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.

p) It would ordinarily be appropriate for a registrant 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

q) 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.

r) 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 registrant 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 practitioner 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 practitioner 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 registrant may serve. Although these rules prevent registrants 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. **[2002]**

The Process for Dealing with Conflicts of Interest

Step 1: Identify Conflicts or Potential Conflicts

5. In order to identify conflicts or potential conflicts when accepting a new engagement, a registrant 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

   Registrants 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 or specific contractual agreements. A registrant has 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 registrant 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 registrant or the registrant's firm or the business interest of another client of the registrant or the registrant's firm. A business conflict raises management, not professional, issues for the registrant or 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 registrant who practices in an international partnership, or has an association with a firm or firms which have an international practice, will have to exercise professional judgement 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 registrant 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 registrant 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.

<u>Step 2: Assess the Conflicts</u>

After conflicts and possible conflicts have been identified, a registrant should exercise professional judgement 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, registrants 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 registrant's or firm's independence and objectivity with respect to an assurance engagement?

d) Does the conflict hinder the registrant's ability to perform his or her duties?

e) What will be the impact on the client's ability to obtain professional services should the registrant 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 registrant 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 registrant be effective in managing the conflict? This will be determined by the facts of the situation and the onus will be on the registrant, where necessary, to demonstrate to the courts that the institutional mechanisms are effective in protecting confidential client information.

i) Will the registrant'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 registrant has identified a conflict and assessed its impact, the registrant may decide to:

a) Decline/Terminate the Engagement – for those conflicts that are not possible or appropriate to manage, the registrant 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. Registrants 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 registrant 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 registrant 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 registrant 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 prescribed, each Conflict Management Approach must be effective and the registrant must be able to demonstrate that it is effective. The registrant 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 judgement 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 judgement 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 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;

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 judgement 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 use 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 registrant 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 registrant attempts to hide behind the wall. The existence of a Fire Wall does not relieve a registrant from making the appropriate enquiries or exercising professional judgement.

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 registrant 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 registrant'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, registrants should use professional judgement 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 registrant 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 registrant enters into discussions with a client about the impact of possible conflicts on the client's interest, the registrant 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 registrant'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 registrant'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 registrant 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 registrant'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 registrant 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 registrant should assess the overall effectiveness of the plan. The onus will be on the registrant 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. Registrants 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, registrants 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?

<u>Step 5: Re-evaluate the Plan During Engagement</u>

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, a conflict or possible conflict with an engagement for another client is discovered, a registrant 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. **[2004]**

Documentation and Other Considerations

6. 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 registrant believes the plan will be effective; and the ongoing assessment of the plan's effectiveness.

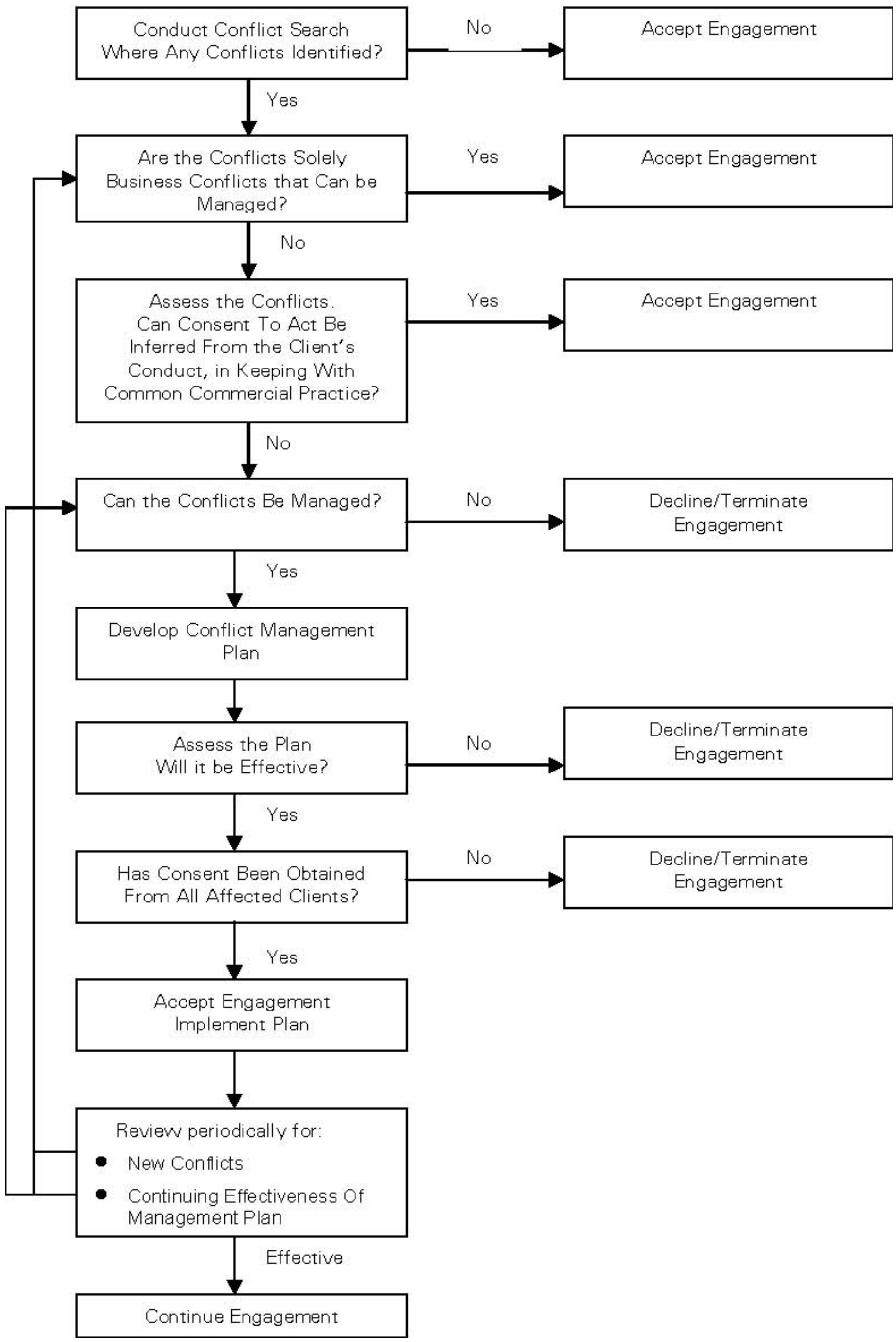
When developing a Conflict Management Approach, the firm must ensure that the Conflict Management Techniques selected are robust enough to demonstrate that the client's interest will be served within the terms of the engagement.

The use of such techniques requires the use of professional judgement 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. **[2002]**

CONFLICT MANAGEMENT DECISION CHART

The process for dealing with conflicts may be illustrated by the following flowchart.



ISSUED: June 2014

211 DUTY TO REPORT BREACH OF RULES OF PROFESSIONAL CONDUCT

211.1 A registrant 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 registrant or applicant, unless such disclosure would result in:

a) the breach of a statutory duty; or

b) the reporting of information by a registrant 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. ***[2001]***

211.2 A registrant who is 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 registrant or applicant until such time as:

a) the client has consented to the release of the information; or

b) the registrant becomes aware that the information is known to third parties other than legal advisors; or

c) it becomes apparent to the registrant that the information will not become known to third parties other than legal advisors. ***[2001]***

GUIDELINES TO 211 – Duty to Report Breach of Rules of Professional Conduct

1. It is in the public interest that a registrant be required to report to the Institute apparent breaches by another registrant 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 reporting of trivial matters or minor perceived faults of another registrant. Each mistake or omission by a registrant is not necessarily a breach of the Rules of Professional Conduct. In deciding when to report, a registrant should believe that the matter raises doubt as to the competence, reputation or integrity of another registrant. **[2001]**

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 by a registrant:

   - in the course of the registrant's employment by or contract made with 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 or contract; or

- in the registrant's role as a practice reviewer 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, when disclosure will result in the loss of solicitor – client privilege. **[2001]**

3. Under certain circumstances, such as the forensic investigation of a fraud, Rule 211.2 permits the reporting of a 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 registrant that the information will not become known to third parties other than legal advisors. **[2001]**
4. Rule 211.2 attempts to strike a balance between the registrant's duty to the client and the duty to protect the public interest and maintain the reputation of the profession. Clients may assume that a registrant will not disclose information without consent, resist the obligation of the registrant to report, and even be reluctant to engage a registrant because of the reporting obligation. In addition, reporting without the client's knowledge or consent could result in a claim against the registrant. Thus, the client must be informed that while the registrant 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 registrant will be obliged to report. **[2001]**
5. A registrant reporting a matter does not have to carry out an investigation or reach a decision as to whether the Rules of Professional 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 registrant along with any supporting documentation. **[2001]**
6. If a registrant knows that a matter involving apparent misconduct on the part of another registrant has come to the Institute's attention, the registrant does not have a duty to report the matter. The registrant must report if the registrant knows that certain facts have been concealed, distorted or otherwise not reported. **[2001]**
7. Having reviewed Rules 211.1 and 211.2 and this Guideline, a registrant 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 guideline 211.4 above, the registrant should also consider obtaining legal advice. **[2004]**

212 DELETED – See 612

213 UNLAWFUL ACTIVITY

Registrants shall not knowingly associate with any unlawful activity. ***[2004]***

214 FEE QUOTATIONS

A registrant shall not quote a fee for any professional engagement unless adequate information has been obtained about the engagement. ***[2003]***

GUIDELINES TO 214 – Fee Quotations

1. A prospective client may wish to obtain some indication of the fees for a registrant's services. A registrant discussing a possible engagement 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 engagement, it would generally be necessary to become familiar with the prospective client's accounting policies and procedures and internal controls. In an accounting engagement, it would generally be necessary to assess the prospective client's books and records and the applications of the related accounting policies. Without becoming so familiarized or making an appropriate assessment, it would not be possible to estimate the fee. **[2003]**
2. As provided in Rule 205, a registrant should not sign or associate with any letter, report, statement, representation or financial statement which the registrant knows or should know is false or misleading. Accordingly, a registrant 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. **[2003]**
3. A registrant 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 registrant 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. **[2003]**

215 CONTINGENT FEES

215.1 *A registrant engaged in a public accounting practice 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 registrant be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the registrant's professional judgement or objectivity or which, in the view of a reasonable observer, would impair the registrant's professional judgement or objectivity; or*
- *b) a compilation engagement.* ***[2001]***

215.2 *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.* ***[2000]***

215.3 *Other than in respect of an engagement described in Rule 215.1, a registrant engaged in a public accounting practice 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 judgement or objectivity of the registrant or a partner of the registrant 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 registrant or a partner of the registrant 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.* ***[2001]***

GUIDELINES TO 215 – Contingent Fees

Introduction

1. A registrant is entitled to charge for professional services such fees as the registrant 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. **[2001]**

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 registrant must bear in mind the requirements of Rules 202, 203, 205 and 206. These rules require a registrant to perform services with integrity and due care; to sustain professional competence in all functions practiced; not to associate with any letter, report, statement or representation which the registrant knows or should know is false or misleading; and to comply with the generally accepted standards of practice of the profession. **[2001]**
3. Rule 215 prohibits a contingent fee arrangement where the registrant providing the service is required to be free of any influence that would impair professional judgement 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. **[2001]**
4. A registrant 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 the registrant's or a partner's professional judgement or objectivity with respect to another engagement for the same client which requires objectivity on the part of the service provider. For example, a registrant may be seen to have compromised professional judgement or objectivity with respect to an audit of financial statements where the registrant, 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 registrant is based. **[2001]**
5. The following examples of engagements undertaken on a contingent fee basis are provided as guidance to assist registrants in determining whether their professional judgement 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 judgement 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 judgement 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 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. **[2001]**

6. The examples in Guidelines 4 and 5 (above) are not intended to be exhaustive or conclusive in determining whether a particular engagement may be undertaken on a contingent fee basis. A registrant must always exercise professional judgement in concluding whether a particular engagement may be undertaken on a contingent fee basis in accordance with Rule 215.3. **[2001]**
7. If the application of Rule 215.1 prohibits an engagement from being provided on a contingent fee basis, a registrant 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. **[2001]**

8. Registrants 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. **[2001]**

Definition

9. For the purpose of Rule 215.3, “partner” means a registrant’s partner, whether or not a registrant of the Institute, in either the registrant’s public accounting firm or a related business or practice, and, for greater certainty, includes any person who is not a registrant but who is a partner or shareholder in the related business or practice. **[2011]**

216 PAYMENT OR RECEIPT OF COMMISSIONS OR OTHER COMPENSATION

Other than in relation to the sale and purchase by a registrant of an accounting practice, a registrant engaged in a public accounting practice shall not directly or indirectly pay to any person who is not an employee of the registrant or who is not a public accountant, a commission or other compensation to obtain a client, nor shall the registrant 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. ***[2001]***

GUIDELINES TO 216 – Payment Or Receipt of Commissions Or Other Compensation

Payment or Receipt of Commissions

1. A registrant 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 registrant engaged in a public accounting practice 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. **[2004]**

2. A professional service provider who is solely employed by an insurance company, insurance agent, investment broker or wealth management firm and only engages in public accounting practice as a result of providing taxation advice to clients and prospective clients of that employer is not precluded from sharing commissions earned by that employer. **[2002]**

217 ADVERTISING AND ENDORSEMENTS

General Advertising

217.1 A registrant may advertise or seek publicity for the registrant'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 registrant knows, or should know, is false or misleading or which includes a statement the contents of which the registrant cannot substantiate;

b) which makes unfavourable reflections on the competence or integrity of the profession or any registrant; or

c) which otherwise brings disrepute on the profession. ***[2009]***

217.2 Solicitation

Notwithstanding Rule 217.1, a registrant shall not, either directly or through a party acting on behalf of and with the knowledge of the registrant, solicit any professional engagement, in a manner that is persistent, coercive or harassing. ***[2003]***

217.3 Endorsements

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

a) the registrant must act with integrity and due care;

b) the registrant must be satisfied that the endorsement:

i) is not false or misleading, or does not include a statement the contents of which the registrant cannot substantiate,

ii) does not make unfavourable reflections on the competence or integrity of the profession or any registrant,

iii) does not otherwise bring disrepute on the profession, and

c) when associating the CA designation with an endorsement, the registrant must conduct sufficient appropriate procedures to support the assertions made about the product or service. ***[2009]***

GUIDELINES TO 217 – Advertising and Endorsements

General Advertising

1. It is in the public interest and in the interest of all registrants of the Institute that registrants be allowed to advertise or otherwise promote services available and the basis of fees charged. Registrants should be able to receive publicity, identifying themselves as registrants of the Institute, in areas which reflect their competence and knowledge, in matters which are within the scope of activities of registrants 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 registrants. It is the responsibility of the registrant to ensure that any promotional material produced by or under the control of the registrant is factual, and that any commentary is not misleading. **[2003]**
2. As guidance to registrants, the following outlines what is acceptable conduct in a number of areas. Unless specifically noted, this guideline also applies to registrants otherwise engaged or employed, and to registrants engaged in a related business or practice. The objective is to ensure that advertising or other promotional communication is accurate and factual. **[2003]**
3. Registrants 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. **[2009]**
4. A registrant 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 registrant's professional services, provided the registrant uses all best efforts to ensure that none of the contents of such news story or work violates the requirements of Rule 217. **[2003]**

False or Misleading Advertising

5. It is not appropriate for registrants to use advertising or promotional communications or media, including electronic media, that bring disrepute on the profession. **[2009]**
6. Registrants 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 practicing unit is larger than it is, such as by use of plural descriptions or other misleading use of words;

b) any implication that a person is a partner of a public accounting firm, when the person is not;

c) any implication that a person is entitled to practice if the person is not registered as a public accounting firm;

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 registrant where the person or registrant is not currently able to provide those services;

g) any statement that the practice is restricted to one or more functions, if engagements are accepted in other practice functions;

h) any statement that may create false or unjustified expectations as to the results of an engagement; or

i) the use in the letterhead of any member or public accounting firm of the name of a non-member which is not clearly and separately identified. **[2009]**

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 engagement 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. **[2003]**

8. Registrants should ensure that any controllable public references to them, their services or accomplishments, whether written or oral, are not false or misleading. **[2009]**

Unfavourable Reflections

9. Since any registrant may be able to offer services similar to those offered by others, it is not appropriate for any registrant to claim superiority with respect to the competence or integrity of any other registrant. **[2003]**

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. **[2001]**

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. **[2003]**

12. Registrants designating themselves or their 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. **[2003]**

13. A chartered accountant seeking identification as a specialist must be designated as a specialist by the appropriate CICA Alliance for Excellence or Accredited Organization or must meet the criteria set out in bylaw 800:

    a) the chartered accountant is recognized by peers, clients and business associates as a specialist in that specialty;

    b) a significant percentage of the chartered accountant's time over a sustained period has been spent in that specialty;

    c) the chartered accountant has completed courses and/or successfully completed appropriate examinations, if applicable, for that specialty;

    d) the chartered accountant continues to complete continuing professional development relevant to that specialty; and

    e) the chartered accountant continues to devote a significant percentage of time to that specialty.

    Only a chartered accountant who is approved as a specialist in a Specialty of Practice in accordance with the bylaws may use the practice names, initials and abbreviations approved for that Specialty of Practice. **[2009]**

14. Improperly claiming specialist status may violate one or more of the following rules:

    - Rule 201.1 which requires registrants to act in a manner that will maintain the good reputation of the profession;
    - Rule 202 which requires registrants to perform their services with integrity and due care;
    - Rule 203 which requires members to sustain their professional competence in all functions in which they practice;
    - Rule 210 which requires registrants to avoid conflicts of interest; and

- Rule 217.1(a) which requires registrants to refrain from making statements that cannot be substantiated. **[2004]**

15. Public Accounting Firms seeking identification as specialists must meet the criteria set out in bylaw 805:

    a) the firm is recognized by peers, clients and business associates as a specialist in that specialty;

    b) a significant percentage of the firm's time over a sustained period has been spent in that specialty;

    c) firm members have completed courses and/or successfully completed appropriate examinations, if applicable, for that specialty;

    d) firm members continue to complete continuing professional development relevant to that specialty; and

    e) the firm continues to devote a significant percentage of time to that specialty. **[2009]**

217.2 Solicitation

1. Solicitation is an approach to a client or prospective client for the purpose 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 registrants. **[2004]**

2. Communication with a prospective client should cease when the prospect so requests either directly to the member or public accounting firm or through the Institute. Any continued contact will be regarded as harassment, which is contrary to the rule. **[2004]**

3. Participation in a trade or financial services show is not prohibited by the rules. The conduct of the registrant 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 guidelines 217.16 and 217.17. **[2004]**

4. The distribution of technical information such as a tax letter to prospective clients and others is not prohibited. **[2004]**

5. Registrants may serve the interests of the public and other registrants 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 registrants responsible for the seminar. Registrants may arrange, promote, present or otherwise be responsible for such seminars, with or without a fee, subject to the rules. **[2004]**

6. A registrant participating in a seminar arranged for, or promoted by, a non-member shall ensure that any reference to the registrant at the seminar and in its promotion complies with the rules. **[2004]**

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 registrant. 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 registrant 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. **[2004]**

217.3 Endorsements

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 entity

      that is of a nature that has enabled the member or public accounting 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 registrant'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. **[2004]**
2. When endorsing a product or service that the member or firm uses in business or professional practice, the registrant 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. **[2004]**
3. When endorsing a personal product or service, the registrant should have sufficient familiarity or acquaintance with the product or service to make an informed and considered decision about it. **[2004]**
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 professional judgement or objectivity with respect to an engagement that requires independence.

218 RETENTION OF DOCUMENTATION AND WORKING PAPERS

A registrant 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. ***[2001]***

GUIDELINES TO 218 – Retention of Documentation and Working Papers

1. Cases may arise where a registrant 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 registrant concerned may well have great difficulty in showing that proper procedures were in fact carried out. The importance of adequate documentation cannot be overemphasized; without it, a registrant's ability to outline and defend professional work is seriously impaired. **[2004]**
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 have been 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 registrant's jurisdiction. **[2012]**
3. Further, a registrant 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 registrant 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 capital assets and future income taxes; and

- other files, information and records as appropriate. **[2004]**

4. Registrants 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 registrant 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 propriety information.

5. When the registrant 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 registrant may provide. Copies of the books and records should be provided to the client regularly.

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

301 Deleted 2003

302 COMMUNICATION REGARDING ACCEPTANCE OF AN ENGAGEMENT

Communication with Predecessor

302.1 A registrant shall not accept an engagement with respect to a public accounting practice or the public practice of a function not inconsistent therewith, where the registrant is replacing another registrant or public accountant, 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 professional engagement. ***[2004]***

Reply to Incumbent

302.2 The incumbent shall respond promptly to the communication referred to in Rule 302.1. ***[2001]***

Suspected Fraud or Other Illegal Activity

302.3 A registrant 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 registrant's resignation or if, in the registrant's view, fraud or other illegal activity by the client may have been a factor in the client's decision to appoint a successor. ***[2001]***

GUIDELINES TO 302 – Communication Regarding Acceptance of an Engagement

Communication with Predecessor – Changes in Professional Appointments

1. The purpose of the rule is to protect a potential successor from accepting an appointment before that registrant has knowledge of the circumstances under which the previous accountant's services were discontinued. Knowledge of these circumstances might well influence that registrant against accepting the engagement. The recommended procedure outlined below should be followed. **[2001]**
2. When a registrant 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 registrant 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 registrant 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. **[2004]**

3. The incumbent must respond promptly to a communication of this nature. If there are no circumstances of which the registrant 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 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 potential 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. **[2004]**

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. **[2004]**

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. **[1995]**

6. Registrants 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. **[2001]**

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* (Alberta). **[2004]**

303 DUTIES OF PREDECESSOR ACCOUNTANT

Cooperation with Successor Accountant

303.1 A registrant shall, upon written request of the client and on a timely basis, supply reasonable and necessary client information to the registrant's successor. Such cooperation is required with any successor accountant, including a non-member. ***[2012]***

303.2 A registrant who is a predecessor on an engagement shall cooperate with the successor, and 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 a form will not violate licensing, copyright or similar legal agreements or proprietary rights. ***[2012]***

GUIDELINES TO 303 – Duties of Predecessor

Cooperation with Successor Accountant

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 personal interest of the registrant;
   b) the client is free to have work performed by the practitioner of choice; and
   c) professional courtesy and cooperation be maintained between practitioners in complying with the client's wishes. **[2012]**
2. A registrant 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. **[2012]**
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, future income taxes) where the client does not have the information.

Registrants 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 cooperate 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 cooperates as fully as possible with a successor 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 a registrant pursuant to Rule 211 or prevent the successor from otherwise properly serving the best interests of the client. **[2012]**

4. Notwithstanding the fact that the best interests of the client are served by cooperation 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 proprietary information, and accordingly, members and firms are not expected to supply copies of audit or review programs and working papers or tax review documents. Ordinarily, predecessors are not expected to supply copies of more than the previous year's financial statements and applicable tax returns, unless the registrant is remunerated for time and expense to do so. **[2012]**

5. Property of the client does not include information that is proprietary to the firm, such as audit or review programs and working papers, review documentation, software or other proprietary material or information. **[2012]**

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 the electronic form where the client does not also have an electronic copy of the records or information. **[2012]**

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 registrant. Basic financial information such as trial balances, leadsheets 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, while members and firms should always consider which readily available transfer medium will best serve the interests of the client, registrants are not required to provide client information electronically in every case. **[2012]**

8. Guideline 4 to Rule 218 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 cooperate with a successor to properly serve the client's interests. **[2012]**

304 JOINT ENGAGEMENTS

A registrant accepting an engagement jointly with another registrant or public accountant shall accept joint and several responsibility for any portion of the work to be performed by either; neither shall proceed in any matter within the terms of such joint engagement without due notice to the other registrant or firm. ***[2004]***

305 COMMUNICATION OF SPECIAL ASSIGNMENTS TO INCUMBENT

305.1 A registrant engaged in a public accounting practice shall, before commencing any engagement for a client for which another registrant or public accountant who 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. ***[2011]***

305.2 Rule 305.1 applies only where the services to be provided under the terms of the engagement are included in a public accounting practice. ***[2001]***

306 SPECIAL ASSIGNMENTS AND REFERRALS

Responsibilities on Special Assignments

306.1 A registrant accepting an engagement, whether by referral or otherwise, from a client of a registrant who has a continuing professional relationship with that client shall not take any action which would tend to impair the position of the other registrant in the ongoing work with the client. ***[2004]***

Additional Services on Referrals

306.2 A registrant receiving an engagement for services by referral from another registrant shall not provide or offer to provide any additional services to the referred client without the consent of the referring registrant; the interest of the client being of overriding concern, the referring registrant shall not unreasonably withhold such consent. ***[2004]***

400 ORGANIZATION AND CONDUCT OF A PROFESSIONAL PRACTICE

401 PRACTICE NAMES

A registrant shall engage in a public accounting practice, 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. ***[2001]***

GUIDELINES TO 401 – Practice Names

1. It is in the interest of all registrants of the Institute that registrants be allowed to conduct their practices under names which reflect their individual preferences and which are appropriate for their particular marketplaces. This guideline sets out guidance for registrants in the selection of practice names and in the identification with other professional service organizations. **[2002]**

2. Registrants 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;

   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. **[2001]**

3. When a registrant or related business or practice participates in an organization, whose members practice public accounting internationally, with professional engagements accepted and reports or opinions issued in the international name, the registrant 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 practice public accounting in many countries. **[2002]**

4. A registrant 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 registrant 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 practicing public accounting. **[2002]**

5. Registrants and related businesses or practices may associate themselves with international organizations which do not practice public accounting but which consist of members who are practicing 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 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. **[2002]**

6. Registrants 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 registrant 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. **[2002]**

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 registrant practicing 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. **[2002]**

8. The Registration Committee, in its discretion, is permitted to be flexible in transitional situations. For example, a member engaged public accounting practice as a sole proprietor or professional corporation, may apply to the Registration Committee for permission to practice 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's public accounting 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 public accounting firm name becomes misleading with respect to the size of the firm. In such cases, the registrant or firm may apply to the Registration Committee for permission to continue to use the name for a specified period of time. **[2004]**

402 PUBLIC ACCOUNTING PRACTICE

Use of Descriptive Styles

402.1 A public accounting practice shall be carried on under the descriptive style of "Chartered Accountant(s)" unless it forms part of the firm name. Regardless of the functions actually performed, the use of "Chartered Accountant(s)," "Professional Accountants" or "Public Accountants" as part of the firm name or as a descriptive style, in offering services to the public, shall be regarded as carrying on a public accounting practice for the purposes of these Rules of Professional Conduct. ***[2004]***

Proprietary Interest with Non-Members

402.2 Notwithstanding Rule 402.1, each office in Alberta of any registrant engaged in a public accounting practice and composed of one or more members sharing proprietary interest with persons who are not professional colleagues shall not practice under the style of "chartered accountant(s)". ***[2004]***

403 ASSOCIATION WITH PUBLIC ACCOUNTING FIRMS

A member shall not associate in any way with any public accounting firm practicing as Chartered Accountants in Alberta unless:

a) all partners resident in Alberta are members or professional corporations registered under Part 3 of the Regulated Accounting Profession Act;

b) *the firm is registered in accordance with the Act and is permitted to use the designation, Chartered Accountant; and*

c) *all the partners or controlling shareholders are professional colleagues, professional corporations or incorporated professionals, provided each such corporation or incorporated professional is recognized and approved to engage in a public accounting practice by the provincial institute in the province concerned.* ***[2004]***

404 OPERATION OF REGISTRANTS' OFFICES

<u>Full-time Office</u>

404.1 Each office in Alberta of any registrant engaged in a public accounting practice 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. ***[2004]***

<u>Part-time Office</u>

404.2 A registrant shall not operate a part-time office except in accordance with such terms and conditions established by Council. ***[2004]***

GUIDELINES TO 404 – Operation of Registrants' Offices

Operation of Registrant's Offices

1. The purpose of the rule is to ensure that the client's public accounting needs will be met in each instance by properly qualified professional personnel. **[1996]**

Part-time Offices

2. A part-time office is an office of a public accounting firm which is operated by a registrant who is practicing 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. **[2004]**

3. In order to comply with Rule 404.2(a), 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. The member-in-charge is responsible for the work of any assistants and is responsible to ensure assistants are adequately trained and supervised. **[2004]**

405 OFFICE BY REPRESENTATION

A registrant engaged in a public accounting practice shall not hold out or imply that the registrant has an office in any place where the registrant is in fact only represented by another public accountant or firm of public accounts and conversely, a registrant engaged in a public accounting practice who only represents a public accountant or firm of public accountants, shall not hold out or imply that the registrant maintains an office for such public accountant or such firm. ***[2004]***

406 MEMBER OR PUBLIC ACCOUNTING FIRM RESPONSIBLE FOR A NON-MEMBER IN A PUBLIC ACCOUNTING PRACTICE

A member or firm engaged in a public accounting practice 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. ***[2004]***

407 RELATED BUSINESS OR PRACTICE AND REGISTRANT RESPONSIBLE FOR NON-MEMBER IN SUCH BUSINESS OR PRACTICE

407.1 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 a public accounting practice. ***[2004]***

407.2 A registrant engaged in a public accounting practice 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 registrant's management or supervision or with whom the registrant 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 a public accounting practice and such non-member were a registrant. ***[2001]***

407.3 A registrant 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. ***[2001]***

407.4 A related business or practice shall not be designated "chartered accountant(s)" or "public accountant(s)". ***[2000]***

408 ASSOCIATION OF MEMBER WITH NON-MEMBERS IN PUBLIC PRACTICE

A registrant shall not associate in any way with a non-member in a public accounting practice, 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 for ensuring:*
   a) *that every such non-member is knowledgeable of and complies with:*
      i) *the Institute's governing legislation, regulations, bylaws 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 or presentation or communication is used which implies that the non-member is a member.* ***[2004]***

409 PUBLIC ACCOUNTING PRACTICE IN CORPORATE FORM

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

1) *a registrant may engage to provide to the corporation, but not on behalf of the corporation, any of the services included in the definition of "public accounting practice;"*
2) *a professional service provider or a member who is not engaged in a public accounting firm, 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 registrant may associate with a professional corporation engaged in a public accounting practice in the Province of Alberta provided such corporation:*
   a) *is incorporated or continued under the Business Corporation Act RSA 2000 c.B-9; and*
   b) *is registered in good standing under Part 3 the Regulated Accounting Profession Act RSA 2000 c.R-12; and*
   c) *complies with any restrictions placed on it.*
4) *a registrant may associate with a professional corporation or incorporated professional engaged in a public accounting practice in a province other than Alberta 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 a public accounting practice in Alberta. ***[2004]***

Without limiting the generality of the foregoing, a corporation shall be deemed to be engaged in a public accounting practice even though the corporation provides a service included in the definition of "public accounting practice" only to another registrant or to a public accountant. ***[2001]***

500 RULES APPLICABLE TO PUBLIC ACCOUNTING FIRMS

501 PUBLIC ACCOUNTING FIRM'S MAINTENANCE OF POLICIES AND PROCEDURES

Firms Maintenance of Policies and Procedures for Compliance with Professional Standards

501 *A public accounting 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. ***[2011]***

Firms Maintenance of Policies and Procedures

502 *A public accounting 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 who are not members 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 objectivity, 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 practice 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 members of the Institute, such as head office personnel:

i) cannot supercede decisions of members relating to the performance of client engagements within the definition of a public accounting practice, and

ii) are familiar with and comply with the Act, regulation, 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 association's bylaws and code of ethics. ***[2010]***

Association with Firms

503 A public accounting firm shall not associate professionally with any other firm practicing as chartered accountants in Alberta unless:

a) all partners of the other firm who reside in Alberta are members or registered professional corporations;

b) the other firm is registered in accordance with the Act and is permitted to use the designation, Chartered Accountant; 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 to engage in a public accounting practice by the provincial institute in the province concerned. ***[2004]***

GUIDELINES TO 501 – Rules Applicable to Public Accounting Firms

Readmission Following Bankruptcy

1. A registrant whose registration has been cancelled as a result of bankruptcy may apply for reinstatement of registration after discharge from bankruptcy providing one year has elapsed from the date on which the decision to cancel the registration was made and the registration committee, after considering the circumstances, may reinstate the registration. **[2001]**

600 OTHER RULES APPLICABLE TO ALBERTA REGISTRANTS

Bankruptcy, Insolvency, Unsound Mind or Mental Infirmity

601.1 Any registrant may be liable to suspension or cancellation if the registrant becomes insolvent, makes an assignment in bankruptcy, is declared a bankrupt by any court of competent jurisdiction or takes the benefit of any statutory provision for insolvent debtors. ***[2004]***

601.2 Any member or student may be liable to suspension or cancellation if the member or student:

a) Is declared by any court of competent jurisdiction to be a person of unsound mind; or

b) In the opinion of a discipline tribunal or an appeal tribunal exhibits unprofessional conduct, due to a mental infirmity from disease, age or otherwise. ***[2004]***

Requirement to Advise the Institute

601.3 A registrant must immediately advise the Institute:

a) If the registrant has been found guilty of violating the provisions of the Bankruptcy and Insolvency Act and has not successfully appealed such conviction within the period allowed therefore; or

b) If any substantial Writ of Execution is filed against the registrant based on a final judgement, which has remained unsatisfied for a period of 15 days from the date of personal service on the registrant of a filed copy of the Writ of Execution; or

c) If the registrant is insolvent; or

d) If the registrant has made a proposal pursuant to the Bankruptcy and Insolvency Act; or

e) If the registrant has made an Assignment pursuant to the Bankruptcy and Insolvency Act; or

f) If the registrant has been served with a Petition pursuant to the Bankruptcy and Insolvency Act;

and in such notice, the registrant shall provide a full written explanation which outlines the circumstances of the matter and shall provide the Institute with copies of all materials filed in connection with or relating to such proceedings. ***[2004]***

612 HANDLING TRUST FUNDS

Trust Funds Defined

612.1 The term "trust funds" means all amounts, whether cash, financial instrument, security or like property, received by a registrant that belongs in whole or in part to a client or is received on a client's behalf or to the direction or order of a client or is 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." Clients may include a person, group of persons, a corporation, an estate or other legal entity, for purposes of these Rules, trust funds also means funds of another person or of a non-profit entity over which a registrant has sole signing authority. ***[2004]***

Handling Funds or Other Property in Trust

612.2 A registrant who receives, handles or holds trust funds 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. ***[2004]***

Written Agreement

612.3 A registrant shall document each trust relationship in writing. ***[2004]***

Trust Bank Account

612.4 A registrant shall promptly deposit trust funds in a separate trust bank account or accounts established in a branch in Alberta of a bank, loan or trust corporation, credit union or treasury branch unless the written trust agreement specifies otherwise. ***[2004]***

Administration of Trust Funds

612.5 Trust funds shall be administered by a registrant and shall be prudently managed and protected from loss or misappropriation by appropriate safeguards and controls. ***[2004]***

Disbursements

612.6 All disbursements from the trust account or transfers from one client to another must be authorized by the client and supported by written documentation. Trust funds may not be lent to or invested directly or indirectly with:

a) the registrant or the registrant's immediate family;

b) a partner or the partner's immediate family; or

c) *any entity in which a person in (a) or (b) has an interest that is material to the person or the entity.* ***[2004]***

Interest Earned

612.7 *Any interest earned on trust funds should be credited to the trust fund and to the benefit of the client, unless the trust agreement or trust engagement letter expressly states otherwise. Any interest earned that is not credited to clients less any service charges from the financial institution for the operation of the trust bank account must be remitted to the CA Education Foundation with the annual administrative report required by Rule 612.15.* ***[2004]***

Banking and Accounting Records

612.8 *A registrant shall maintain such records as are necessary to account properly for the money or other property held in trust.* ***[2004]***

Reconciliations

612.9 *The trustee, on a timely basis, shall prepare, date and sign monthly reconciliations for each bank account and the trust sub-ledger.* ***[2004]***

Correction of Errors

612.10 *Any error discovered in a trust account shall be corrected within 10 days of the date of discovery.* ***[2004]***

Reporting

612.11 *Unless otherwise specified in the trust agreement or trust engagement letter, the registrant shall report regularly to the client, usually monthly, as to the status of the trust fund and other trust property including an accounting for all receipts, disbursements, and interest, opening and ending balances.* ***[2004]***

Negative Balance

612.12 *Unless otherwise specified in the trust agreement or trust engagement letter, no trust account shall be in a negative balance. Registrants, upon learning of an unauthorized deficiency, shall immediately make good the deficiency or immediately notify the Institute of the deficiency, the reason for it, and the plan to make it good.* ***[2004]***

Other Trust Property

612.13 *When a registrant receives other property in trust in lieu of funds, appropriate safeguards and controls shall be established over the custody of the property.* ***[2004]***

Bankruptcy and Insolvency and Other Legislation

612.14 If the engagement or trust relationship is one governed by bankruptcy and insolvency or other legislation, registrants shall refer to the provisions of such legislation and any regulations and directives enacted there under. ***[2004]***

Registrant's Annual Filing to the Institute

612.15 Any registrant who administers trust funds or other trust property shall file with the Institute within 90 days of the public accounting firm's fiscal year end, or in the case of an individual by March 31, a report on its administration of all trust funds and other trust property, in the form specified by Council. ***[2004]***

Institute Review

612.16 The trust records of public accounting firms or a related business or practice and professional service providers shall be made available to anyone appointed by the Institute to ascertain compliance with these rules except for the following:

a) a bankruptcy or insolvency trust that is subject to review and approval by the Court;

b) a trust or estate subject to review and approval by the Court; and

c) a trust subject to the provisions of the Legal Profession Act, the Real Estate Act or other similar legislation. ***[2004]***

Independent Report

612.17 Any registrant who administers a trust account shall, upon the direction of the Institute, engage a public accounting firm to report on the results of applying specified auditing procedures as determined by Council on the trust funds held, and shall submit to the Institute, within 90 days of the direction, the public accounting firm's report. The following trusts are exempt from this provision:

a) bankruptcy or insolvency trust that is subject to review and approval by the Court;

b) a trust or estate subject to review and approval by the Court;

c) a trust subject to the provisions of the Legal Profession Act, Real Estate Act, or other similar legislation; and

d) a trust where the trust agreement or trust engagement letter includes a provision that the trust is exempt from this provision. ***[2004]***

Fees Held in Advance

612.18 When a chartered accountant, public accounting firm or a professional service provider, hereinafter firm, receives professional fees in advance, they will be treated as trust funds unless:

a) the fees in advance are less than or equal to $10,000; or

b) a retainer agreement is in place that meets the requirement of Rule 612.19. ***[2004]***

612.19 A retainer agreement must be signed by the client and the firm and include the following terms:

a) when invoices will be rendered;

b) how invoices will be approved by the client;

c) how fees will be applied; i.e., whether fees will be applied to first invoice, applied to overdue invoices, or if the deposit will be held and applied to final invoice;

d) that a statement setting out the outstanding invoices and the fees held in advance will be provided at least annually to the client;

e) that after the completion of the engagement, fees in excess of rendered invoices will be refunded within 30 days;

f) if the firm determines it cannot complete the engagement, how the excess fees will be refunded; and

g) that any dispute with respect to the invoices rendered will be resolved through the Institute's Fee Arbitration program and the firm will provide to the Institute or its designee the fees received in advance, such funds to be paid out in accordance with the Arbitrator's decision. ***[2004]***

612.20 Fees in advance that are less than or equal to $10,000 or are subject to a retainer agreement may be deposited to the firm's general account and must be credited to the client's accounts receivable account. ***[2004]***

612.21 A firm must comply with the terms of the retainer agreement or refund the fees forthwith. ***[2004]***

Handling Property of Others

612.22 A registrant in the course of providing professional services shall handle with due care any property entrusted to the registrant. ***[2004]***

GUIDELINES TO 612 – Handling Trust Funds

Advance Fees

1. Advance fees are trust funds. If the fee received in advance is less than or equal to $10,000, or there is a retainer agreement in place that meets the requirements of Rule 612.19, such fee in advance can be handled in accordance with that Rule. **[2004]**

Legal Advice

2. Registrants accepting trust funds for the first time should obtain legal advice with respect to complying with the law relating to trusts, and are advised to seriously consider using the services of a trust company or lawyer especially when the amounts involved are large or contentious.

Cheque Payable to a Client

3. A registrant who receives a cheque made payable to a client should not negotiate the cheque or deposit it into a trust account without prior written authority from the client. Absent this written authorization, the cheque should be forwarded forthwith to the client.

Illegal Activities

4. A registrant shall not receive or deposit into a trust fund any money that the registrant has reason to believe was obtained from, or is to be used for, illegal activities.

Objectivity

5. Registrants in a public accounting practice who act as executors, administrators or trustees should refer to the objectivity standards as set out in Rule 204 and the guidelines thereto.

6. A trust agreement or trust engagement letter signed by the client should be used to document each trust relationship. The terms of the trust should be specified therein and would normally include the period during which the funds or other trust property will be held, how the funds are to be expended where the funds will be deposited and the reporting that will be provided to the client.

7. For trust relationships in place prior to December 31, 2004, registrants must have trust agreements or trust engagement letters in place by December 31, 2005. **[2004]**

Establishment of a Trust Bank Account

8. The trust bank account, shall generally be an account in the name of a specific client, in the name of the estate or trustee, or a consolidated operating trust account for those trust clients for whom very few transactions are required. The title of the account shall include the word “trust” or, if

applicable, "estate of John Doe" or "Joan Smith, trustee for the estate of John Doe."

9. When a trust bank account or deposit certificate is established, the registrant should give written notice to the financial institution:
   a) that all monies in the account are held in trust for clients and that the financial institution is not entitled to combine the account with any other account or to exercise any right of set-off or counterclaim against money in that account for any sum owed to it on any other account of the registrant or its affiliates;
   b) that interest payable in respect of the monies in the account shall be credited to the account;
   c) that service fees with respect to a consolidated operating trust account shall be charged to the registrant's business account, not to the consolidated operating trust account; and
   d) requesting the financial institution to acknowledge in writing the acceptance of the above terms.
10. Only trust monies should be deposited in the trust account, except for amounts that may be required to cover service charges or other withdrawals inadvertently made against the account.
11. A registrant should not use trust funds for personal or practice transactions.
12. A registrant should issue receipts if requested. **[2004]**

Excess Trust Funds

13. Excess trust funds should be maintained in an interest bearing account or in deposit certificates.
14. Each withdrawal or disbursement shall be approved by the registrant responsible for administering the trust account. Withdrawals or disbursements from a trust account should be limited to:
    a) funds properly required for payment to or on behalf of the client; or
    b) funds properly required for or toward payment of the registrant's fees for services rendered or disbursements incurred for which a billing was rendered and approved, in writing, by the client; and
    c) reasonable bank charges levied by the financial institution.
15. Notwithstanding the type of accounts used for the deposit of trust or estate funds, the trustee shall maintain in proper order:
    a) paid (cancelled) cheques and monthly bank statements;
    b) proper books (manual or electronic) and records of account for each client showing all receipts and disbursements of funds, including the name of the payer or payee, the date, nature of receipt or payment and the amount;

c) a trust sub-ledger reflecting an account for each client for whom funds have been received in trust;

d) proper written documentation in support of all receipts and disbursements;

e) for consolidated operating trust accounts, how any interest allocated to clients was calculated;

f) a monthly listing by client of all amounts held in trust as reflected in the trust sub-ledger;

g) a monthly bank reconciliation for each trust bank account;

h) a monthly reconciliation of the trust sub-ledger to the trust bank accounts, which has been approved by the registrant administering the trust funds; and

i) a listing of all errors discovered, including those discovered through a reconciliation, and how and when the errors were corrected.

16. These records shall be maintained at all times by the registrant and retained for a period of not less than 7 years. **[2004]**

DEFINITIONS

For the purposes of interpreting these Rules of Professional Conduct and related guidelines, the definitions in the bylaws and the following apply:

a) ***"advertise"*** means the making by or on behalf of a member, any oral or written representation to the public, by any means whatsoever, concerning services offered by the member as a chartered accountant or in the member's public accounting practice or a related business or practice (as referred to in the Rules of Professional Conduct) or in the generality of the foregoing, includes the making of any such representation on stationery, or in any announcement, business card, brochure, leaflet, pamphlet, sign, notice, or other document or printed or written matter, as well as in any newspaper, magazine, journal or other periodical, or by means of any broadcast by radio, television or other means, and "advertisement" and "advertising" shall have corresponding meanings; **[2001]**

b) ***"bankrupt"*** means a person who has made an assignment or against whom a receiving order has been made pursuant to the Bankruptcy and Insolvency Act; **[2001]**

c) ***"cross-referenced"*** means, in relation to a public accounting practice and one or more other businesses or practices:

   i) reference in the advertising, promotional or other material of any of them to any of the others; or

   ii) use by any of them of any name, word, design or other feature or characteristic of presentation or communication;

which, in the view of a reasonable observer, would imply that the public accounting practice, or any of its proprietors:

iii) has proprietary interest or management influence in any of the other businesses or practices; or

iv) has any other ongoing economic association or relationship with any of the other businesses or practices. **[2001]**

d) ***"insolvent person"*** has the meaning used in the Bankruptcy and Insolvency Act to refer to a person who is not bankrupt and who resides or carries on business in Canada, whose liability to creditors provable as claims under the Act amount to $1,000, and:

i) who is, for any reason, not able to meet obligations as they generally become due;

ii) who has ceased paying current obligations in the ordinary course of business as they generally become due; or

iii) the aggregate of whose property is not, at a fair valuation, sufficient, or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all obligations, due and accruing due. **[2002]**

e) ***"professional colleague"*** means a member or public accounting firm registered with the Institute or with a provincial institute. **[2001]**

f) ***"public accountant"*** means a person who either alone or in partnership with others engages in a public accounting practice. **[2001]**

g) ***"related business or practice"*** means a business or practice which is related to a public accounting practice by reason of being cross-referenced:

i) with a public accounting practice; or

ii) with any other business or practice which is cross-referenced with a public accounting firm. **[2001]**

h) ***"trust"*** is a relationship which arises whenever a person (trustee) is compelled in equity to hold property for the benefit of some persons (cestuis que trust) or for some object permitted by law in such a way that the real benefit of the property accrues, not to the trustee, but to the beneficiaries or other objects of the trust. (from Keaton, "The Law of Trusts," 11th edition). **[2001]**

GUIDE TO KEY DEFINITIONS

TERM		DEFINITION
Accountability Relationship	-	Bylaw 100(a)
Accounting Services	-	Bylaw 100(b)
Advertise	-	Bylaw 100(e)
Appeal Tribunal	-	Bylaw 100(g)
Assurance Engagement (with respect to objectivity)	-	Bylaw 100(i)
Audit Engagement	-	Bylaw 100(j)
Bankrupt	-	Bylaw 100(k)
CICA Handbook	-	Bylaw 100(q)
Compilation Engagement	-	Bylaw 100(r)
Conduct	-	Bylaw 100(u)
Council	-	Bylaw 100(v)
Cross-referenced (with respect to related functions)	-	Bylaw 100(w)
Discipline Tribunal	-	Bylaw 100(x)
Executive Director	-	Bylaw 100(z)
Insolvent person	-	Bylaw 100(ee)
Institute	-	Bylaw 100(ff)
Member	-	Bylaw 100(ii)
Part-time office (with respect to Rule 404.2)	-	G 404.2 and Bylaw 100(jj)
Professional colleague	-	Bylaw 100(oo)
Professional services	-	Foreword to the Rules of Professional Conduct - Application section
Public Accountant	-	Bylaw 100(ss)
Public Accounting Firm	-	Bylaw 100(tt)
Public Accounting Practice	-	Bylaw 100(uu)
Reasonable observer	-	Foreword to the Rules of Professional Conduct
Records	-	Bylaw 100(xx)
Registrant	-	Bylaw 100(yy)

TERM		**DEFINITION**
Registration	-	Bylaw 100(aaa)
Registration Committee	-	Bylaw 100(bbb)
Regulations	-	Bylaw 100(ccc)
Related Business or Practice	-	Bylaw 100(ddd)
Review (engagement)	-	Bylaw 100(fff)
Specified Auditing Procedures Engagement	-	Bylaw 100(kkk)
Student	-	Bylaw 100(lll)
Trust	-	Bylaw 100(nnn)
Trust funds (with respect to Rule 612)	-	G 612

Other definitions of terms used in the Institute's Bylaws, regulations and Rules of Professional Conduct are found in Bylaw 001. Certain definitions in respect of audit appointments under the *Canada Elections Act* and the *Election Finances and Contributions Disclosure Act* (Alberta) are found in Guideline 204.56.