

Preface to
Code of Ethics for the members of
the Institute of Chartered Accountants of Nepal
Statement of Policy of Council

This Preface has been approved by the Council of the Institute of Chartered Accountants of Nepal for publication.

1. The Institute of Chartered Accountants of Nepal (ICAN) as a prospective member of the International Federation of Accountants (IFAC) is committed to the IFAC's broad objective of developing and enhancing a coordinated worldwide accountancy profession with harmonized standards. In working toward this objective, IFAC develops guidance on ethics for professional accountants. IFAC believes that issuing such guidance will improve the degree of uniformity of professional ethics throughout the world.
2. As a condition of its membership, ICAN is obliged to support the work of IFAC by informing its members of every pronouncement developed by IFAC, and to work towards implementation, when and to the extent possible under local circumstances, of those pronouncements.
3. ICAN has determined to adopt the IFAC Code of Ethics for Professional Accountants as the basis for approved ethical requirements in Nepal. The Council of ICAN has prepared an explanatory foreword which sets out the status and effective date of this decision along with significant differences between the IFAC guidance and the law or practice in Nepal and how such differences have been resolved.

An explanatory foreword will be issued on the status of each additional IFAC pronouncement on Ethics that is adopted by the Council of ICAN. Where the Council of ICAN deems it necessary, additional ethical requirements may be developed on matters of relevance in Nepal not covered by an IFAC pronouncement.

4. Members of ICAN are expected to comply with the ethical requirements issued by ICAN. Apparent failure to do so may result in an investigation into the member's conduct by the Disciplinary Committee of ICAN.
5. It is not practical to establish ethical requirements which apply to all situations and circumstances that professional accountants may encounter. Therefore, professional accountants should consider the ethical requirements as the basic principles which they should follow in performing their work.
6. The date from which members are expected to observe pronouncements on ethics is set out in the explanatory foreword.

**Code of Ethics for the members of
the Institute of Chartered Accountants of Nepal**

Explanatory Foreword

The Council of the Institute of Chartered Accountants of Nepal (ICAN) has determined that this Code should be adopted with the explanatory notes below. This Code is mandatory for all members of Institute of Chartered Accountants of Nepal to observe in respect of the performance of professional services in Nepal after January 15, 2004 [Magh 1, 2060].

Section 8 ICAN has determined that the shares in an accounting practice may not be held by those who are not members of the Institute of Chartered Accountants of Nepal. Thus Sec 8.11 of IFAC guideline has been suitably adopted.

Section 14 ICAN has determined that the professional accountants are not permitted to advertise their services. Thus Sec 14 of IFAC guideline has been suitably adopted.

Code of Ethics
for the members of the
Institute of Chartered Accountants of Nepal

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Definitions

In this Code of Ethics for Professional Accountants the following expressions appear in **bold type** when they are first used and have the following meanings assigned to them:

Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Client Account	Any bank account which is used solely for the banking of clients' monies.
Clients' Monies	Any monies—including documents of title to money e.g., bills of exchange, promissory notes, and documents of title which can be converted into money e.g., bearer bonds—received by a professional accountant in public practice to be held or paid out on the instruction of the person from whom or on whose behalf they are received.
Company	A company as defined under the Company Act 2053 and any other entity or person(s), whether organized for profit or not, including a parent company and all of its subsidiaries.
Employed professional accountant	A professional accountant employed in the private sector,-the public sector or education or non-government organization.
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
Investee	A subsidiary or an entity subject to the significant influence of an investor.
Investor	A parent, general partner, or natural person or corporation that has the ability to exercise significant influence on an investee.
Objectivity	A combination of impartiality, intellectual honesty and a freedom from conflicts of interest.
Practice	A sole practitioner or a partnership of professional accountants which offers professional services to the public.
Professional accountant	Those persons, whether they be in public practice (including a sole practitioner or partnership), the private sector, the public sector or education or non-government organization who are members of ICAN.
Professional accountant in public practice	Each partner or person occupying a position similar to that of a partner, and each employee in a practice providing professional services to a client irrespective of their functional classification (e.g., audit, tax or consulting) and professional accountants in a practice having managerial responsibilities. This term is also used to refer to a firm of professional accountants in public practice.
Professional services	Any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
Publicity	The communication to the public of facts about a professional accountant which are not designed for the deliberate promotion of that professional accountant.
Receiving accountant	A professional accountant in public practice to whom the existing accountant or client of the existing accountant has referred audit, accounting, taxation, consulting or similar appointments, or who is consulted in order to meet the needs of the client.
Reporting assignment	An engagement which requires the expression of an opinion by a professional accountant in public practice on financial information.
Solicitation	The approach to a potential client for the purpose of offering professional services.

IFAC Code of Ethics for Professional Accountants

Introduction

1. ICAN, recognizing the responsibilities of the accountancy profession as such, and considering its own role to be that of providing guidance, encouraging continuity of efforts, and promoting harmonization, has deemed it essential to establish a Code of Ethics for Professional Accountants to be the basis on which the ethical requirements (code of ethics, detailed rules, guidelines, standards of conduct, etc.) for **professional accountants*** in Nepal is founded.
2. Further, the Code is established on the basis that unless a limitation is specifically stated the objectives and fundamental principles are equally valid for all professional accountants, whether they be in the private sector, the public sector or education or non-government organization.
3. A profession is distinguished by certain characteristics including:
 - mastery of a particular intellectual skill, acquired by training and education;
 - adherence by its members to a common code of values and conduct established by its administering body, including maintaining an outlook which is essentially objective; and
 - acceptance of a duty to society as a whole (usually in return for restrictions in use of a title or in the granting of a qualification).
4. Members' duty to their profession and to society may at times seem to conflict with their immediate self interest or their duty of loyalty to their employer.
5. Against this background it is beholden on ICAN to lay down ethical requirements for their members to ensure the highest quality of performance and to maintain public confidence in the profession.

The Public Interest

6. A distinguishing mark of a profession is acceptance of its responsibility to the public. The accountancy profession's public consists of clients, credit grantors, governments, employers, employees, investors, the business and financial community, and others who rely on the **objectivity*** and integrity of professional accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on the accountancy profession. The public interest is defined as the collective well-being of the community of people and institutions the professional accountant serves.
7. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. The standards of the accountancy profession are heavily determined by the public interest, for example:
 - independent auditors help to maintain the integrity and efficiency of the financial statements presented to financial institutions in partial support for loans and to stockholders for obtaining capital;
 - financial executives serve in various financial management capacities in organizations and contribute to the efficient and effective use of the organization's resources;
 - internal auditors provide assurance about a sound internal control system which enhances the reliability of the external financial information of the employer;
 - tax experts help to establish confidence and efficiency in, and the fair application of, the tax system; and
 - management consultants have a responsibility toward the public interest in advocating sound management decision making.

* For definitions see pages 1.

8. Professional accountants have an important role in society. Investors, creditors, employers and other sectors of the business community, as well as the government and the public at large rely on professional accountants for sound financial accounting and reporting, effective financial management and competent advice on a variety of business and taxation matters. The attitude and behavior of professional accountants in providing such services have an impact on the economic well-being of their community and country.
9. Professional accountants can remain in this advantageous position only by continuing to provide the public with these unique services at a level which demonstrates that the public confidence is firmly founded. It is in the best interest of the worldwide accountancy profession to make known to users of the services provided by professional accountants that they are executed at the highest level of performance and in accordance with ethical requirements that strive to ensure such performance.

Objectives

10. The Code recognizes that the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement set out above. These objectives require four basic needs to be met:
 - *Credibility*
In the whole of society there is a need for credibility in information and information systems.
 - *Professionalism*
There is a need for individuals who can be clearly identified by clients, employers and other interested parties as professional persons in the accountancy field.
 - *Quality of Services*
There is a need for assurance that all services obtained from a professional accountant are carried out to the highest standards of performance.
 - *Confidence*
Users of the services of professional accountants should be able to feel confident that there exists a framework of professional ethics which governs the provision of those services.

Fundamental Principles

11. In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles.
12. The fundamental principles are:
 - *Integrity*
A professional accountant should be straightforward and honest in performing **professional services**.*
 - *Objectivity*
A professional accountant should be fair and should not allow prejudice or bias, conflict of interest or influence of others to override objectivity.
 - *Professional Competence and Due Care*
A professional accountant should perform professional services with due care, competence and diligence and has a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service based on up-to-date developments in practice, legislation and techniques.
 - *Confidentiality*
A professional accountant should respect the confidentiality of information acquired during the course of performing professional services and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.
 - *Professional Behavior*
A professional accountant should act in a manner consistent with the good reputation of the profession and refrain from any conduct which might bring discredit to the profession.
 - *Technical Standards*
A professional accountant should carry out professional services in accordance with the relevant technical and professional standards. Professional accountants have a duty to carry out with care and

* For definitions see pages 1

skill, the instructions of the client or employer insofar as they are compatible with the requirements of integrity, objectivity and, in the case of **professional accountants in public practice**,* independence (see Section 8 below). In addition, they should conform with the technical and professional standards promulgated by:

- Nepal Accounting Standards Board
- Nepal Standards on Auditing Board
- ICAN or other regulatory body; and
- relevant legislation.

The Code

13. The objectives as well as the fundamental principles are of a general nature and are not intended to be used to solve a professional accountant's ethical problems in a specific case. However, the Code provides some guidance as to the application in practice of the objectives and the fundamental principles with regard to a number of typical situations occurring in the accountancy profession.
14. The Code set out below is divided into three parts:
 - Part A applies to all professional accountants unless otherwise specified.
 - Part B applies only to those accountants in public practice.
 - Part C applies to **employed professional accountants**,* and may also apply, in appropriate circumstances, to accountants employed in public practice.

* For definitions see pages 1

PART A — APPLICABLE TO ALL PROFESSIONAL ACCOUNTANTS

SECTION 1

Integrity and Objectivity

- 1.1 Integrity implies not merely honesty but fair dealing and truthfulness. The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflicts of interest.
- 1.2 Professional accountants serve in many different capacities and should demonstrate their objectivity in varying circumstances. Professional accountants in public practice undertake reporting assignments, and render tax and other management advisory services. Other professional accountants prepare financial statements as a subordinate of others, perform internal auditing services, and serve in financial management capacities in the private sector, the public sector or education or non-government organization. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, professional accountants should protect the integrity of their professional services, and maintain objectivity in their judgment.
- 1.3 In selecting the situations and practices to be specifically dealt within ethics requirements relating to objectivity, adequate consideration should be given to the following factors:
 - (a) Professional accountants are exposed to situations which involve the possibility of pressures being exerted on them. These pressures may impair their objectivity.
 - (b) It is impracticable to define and prescribe all such situations where these possible pressures exist. Reasonableness should prevail in establishing standards for identifying relationships that are likely to, or appear to, impair a professional accountant's objectivity.
 - (c) Relationships should be avoided which allow prejudice, bias or influences of others to override objectivity.
 - (d) Professional accountants have an obligation to ensure that personnel engaged on professional services adhere to the principle of objectivity.
 - (e) Professional accountants should neither accept nor offer gifts or entertainment which might reasonably be believed to have a significant and improper influence on their professional judgment or those with whom they deal. Professional accountants should avoid circumstances which would bring their professional standing into disrepute.
 - (f) Professional accountants should not act in contrary to the interest of ICAN in the delivery of education and training.

SECTION 2

Resolution of Ethical Conflicts

- 2.1 From time to time professional accountants encounter situations which give rise to conflicts of interest. Such conflicts may arise in a wide variety of ways, ranging from the relatively trivial dilemma to the extreme case of fraud and similar illegal activities. It is not possible to attempt to itemize a comprehensive checklist of potential cases where conflicts of interest might occur. The professional accountant should be constantly conscious of and be alert to factors which give rise to conflicts of interest. It should be noted that an honest difference of opinion between a professional accountant and another party is not in itself an ethical issue. However, the facts and circumstances of each case need investigation by the parties concerned.
- 2.2 It is recognized, however, that there can be particular factors which occur when the responsibilities of a professional accountant may conflict with internal or external demands of one type or another. Hence:
 - There may be the danger of pressure from an overbearing supervisor, manager, director or partner; or when there are family or personal relationships which can give rise to the possibility of pressures being exerted upon them (see paragraph 8.6 below). Indeed, relationships or interests which could adversely influence, impair or threaten a professional accountant's integrity should be discouraged.

- A professional accountant may be asked to act contrary to technical and/or professional standards.
 - A question of divided loyalty as between the professional accountant's superior and the required professional standards of conduct could occur.
 - Conflict could arise when misleading information is published which may be to the advantage of the employer or client and which may or may not benefit the professional accountant as a result of such publication.
- 2.3 In applying standards of ethical conduct professional accountants may encounter problems in identifying unethical behavior or in resolving an ethical conflict. When faced with significant ethical issues, professional accountants should follow the established policies of the employing organization to seek a resolution of such conflict. If those policies do not resolve the ethical conflict, the following should be considered:
- Review the conflict problem with the immediate superior. If the problem is not resolved with the immediate superior and the professional accountant determines to go to the next higher managerial level, the immediate superior should be notified of the decision. If it appears that the superior is involved in the conflict problem, the professional accountant should raise the issue with the next higher level of management. When the immediate superior is the Chief Executive Officer (or equivalent) the next higher reviewing level may be the Executive Committee, Board of Directors, Non-Executive Directors, Trustees, Partners' Management Committee or Shareholders.
 - Seek counseling and advice on a confidential basis with ICAN to obtain an understanding of possible courses of action.
 - If the ethical conflict still exists after fully exhausting all levels of internal review, the professional accountant as a last resort may have no other recourse on significant matters (e.g., fraud) than to resign and to submit an information memorandum to an appropriate representative of that organization or of an external body as required under prevalent laws and regulations in Nepal.
- 2.5 Any professional accountant in a senior position should endeavor to ensure that policies are established within his or her employing organization to seek resolution of conflicts.

SECTION 3

Professional Competence

- 3.1 Professional accountants should not portray themselves as having expertise or experience they do not possess.
- 3.2 Professional competence may be divided into two separate phases:
- (a) Attainment of professional competence

The attainment of professional competence requires initially a standard of general education followed by specific education, training and examination in professionally relevant subjects, and a period of work experience, as are set out to be requisite minimum qualification to obtain membership of ICAN.
 - (b) Maintenance of professional competence
 - (i) The maintenance of professional competence requires a continuing awareness of developments in the accountancy profession including relevant national pronouncements on accounting, auditing and other relevant regulations and statutory requirements.
 - (ii) A professional accountant should adopt a program designed to ensure quality control in the performance of professional services consistent with appropriate national pronouncements.

SECTION 4

Confidentiality

- 4.1 Professional accountants have an obligation to respect the confidentiality of information about a client's or employer's affairs acquired in the course of professional services. The duty of confidentiality continues even after the end of the relationship between the professional accountant and the client or employer.
- 4.2 Confidentiality should always be observed by a professional accountant unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.
- 4.3 Professional accountants have an obligation to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality.
- 4.4 Confidentiality is not only a matter of disclosure of information. It also requires that a professional accountant acquiring information in the course of performing professional services does neither use nor appear to use that information for personal advantage or for the advantage of a third party.
- 4.5 A professional accountant has access to much confidential information about a client's or employer's affairs not otherwise disclosed to the public. Therefore, the professional accountant should be relied upon not to make unauthorized disclosures to other persons. This does not apply to disclosure of such information in order properly to discharge the professional accountant's responsibility according to the profession's standards.
- 4.7 It should be recognized, however, that confidentiality of information is part of statute or common law and therefore detailed ethical requirements in respect thereof will depend on the law of Nepal.
- 4.8 The following are examples of the points which should be considered in determining whether confidential information may be disclosed:
 - (a) When disclosure is authorized. When authorization to disclose is given by the client or the employer the interests of all the parties including those third parties whose interests might be affected should be considered.
 - (b) When disclosure is required by law. Examples of when a professional accountant is required by law to disclose confidential information are:
 - (i) to produce documents or to give evidence in the course of legal proceedings; and
 - (ii) to disclose to the appropriate public authorities infringements of the law which come to light.
 - (c) When there is a professional duty or right to disclose:
 - (i) to comply with technical standards and ethics requirements; such disclosure is not contrary to this section;
 - (ii) to protect the professional interests of a professional accountant in legal proceedings;
 - (iii) to comply with the quality (or peer) review of ICAN; and
 - (iv) to respond to an inquiry or investigation by ICAN or regulatory body.
- 4.9 When the professional accountant has determined that confidential information can be disclosed, the following points should be considered:
 - whether or not all the relevant facts are known and substantiated, to the extent it is practicable to do so; when the situation involves unsubstantiated fact or opinion, professional judgment should be used in determining the type of disclosure to be made, if any ;
 - what type of communication is expected and the addressee; in particular, the professional accountant should be satisfied that the parties to whom the communication is addressed are appropriate recipients and have the responsibility to act on it, and ;
 - whether or not the professional accountant would incur any legal liability having made a communication and the consequences thereof.
- 4.10 In all such situations, the professional accountants should consider the need to consult legal counsel and/or the ICAN.

SECTION 5

Tax Practice

- 5.1 A professional accountant rendering professional tax services is entitled to put forward the best position in favor of a client, or an employer, provided the service is rendered with professional competence, does not in any way impair integrity and objectivity, and is in the opinion of the professional accountant consistent with the law. Doubt may be resolved in favor of the client or the employer if there is reasonable support for the position.
- 5.2 A professional accountant should not hold out to a client or an employer the assurance that the tax return prepared and the tax advice offered are beyond challenge. Instead, the professional accountant should ensure that the client or the employer are aware of the limitations attaching to tax advice and services so that they do not misinterpret an expression of opinion as an assertion of fact.
- 5.3 A professional accountant who undertakes or assists in the preparation of a tax return should advise the client or the employer that the responsibility for the content of the return rests primarily with the client or employer. The professional accountant should take the necessary steps to ensure that the tax return is properly prepared on the basis of the information received.
- 5.4 Tax advice or opinions of material consequence given to a client or an employer should be recorded, either in the form of a letter or in a memorandum for the files.
- 5.5 A professional accountant should not be associated with any return or communication in which there is reason to believe that it:
- (a) contains a false or misleading statement;
 - (b) contains statements or information furnished recklessly or without any real knowledge of whether they are true or false; or
 - (c) omits or obscures information required to be submitted and such omission or obscurity would mislead the revenue authorities.
- 5.6 A professional accountant may prepare tax returns involving the use of estimates if such use is generally acceptable or if it is impractical under the circumstances to obtain exact data. When estimates are used, they should be presented as such in a manner so as to avoid the implication of greater accuracy than exists. The professional accountant should be satisfied that estimated amounts are reasonable under the circumstances.
- 5.7 In preparing a tax return, a professional accountant ordinarily may rely on information furnished by the client or employer provided that the information appears reasonable. Although the examination or review of documents or other evidence in support of the information is not required, the professional accountant should encourage, when appropriate, such supporting data to be provided.
- In addition, the professional accountant:
- (a) should make use of the client's returns for prior years whenever feasible;
 - (b) is required to make reasonable inquiries when the information presented appears to be incorrect or incomplete; and
 - (c) is encouraged to make reference to the books and records of the business operations, as applicable.
- 5.8 When a professional accountant learns of a material error or omission in a tax return of a prior year (with which the professional accountant may or may not have been associated), or of the failure to file a required tax return, the professional accountant has a responsibility to:
- (a) Promptly advise the client or employer of the error or omission and recommend that disclosure be made to the revenue authorities. The professional accountant is not obligated to inform the revenue authorities.
 - (b) If the client or the employer does not correct the error the professional accountant:
 - (i) should inform the client or the employer that it is not possible to act for them in connection with that return or other related information submitted to the authorities; and,

- (ii) should consider whether continued association with the client or employer in any capacity is consistent with professional responsibilities.
- (c) If the professional accountant concludes that a professional relationship with the client or employer can be continued, all reasonable steps should be taken to ensure that the error is not repeated in subsequent tax returns.

SECTION 6

Cross Border Activities

- 6.1 When considering the application of ethical requirements in cross border activities a number of situations may arise. Whether a professional accountant is a member of the profession in Nepal only or is also a member of the profession in the country where the services are performed should not materially affect the manner of dealing with each situation.
- 6.2 A professional accountant qualifying in Nepal may reside in another country or may be temporarily visiting that country to perform professional services. In all circumstances, the professional accountant should carry out professional services in accordance with the relevant technical standards and ethical requirements.
- 6.3 When a professional accountant performs services in a country other than Nepal and differences on specific matters exist between ethical requirements of the two countries the following provisions should be applied:
 - (a) When the ethical requirements of the country in which the services are being performed are less strict than the ICAN Code of Ethics, then the ICAN Code of Ethics should be applied.
 - (b) When the ethical requirements of the country in which services are being performed are stricter than the ICAN Code of Ethics, then the ethical requirements in the country where services are being performed should be applied.
 - (c) When the ethical requirements of Nepal are mandatory for services performed outside that country and are stricter than set out in (a) and (b) above, then the ethical requirements of Nepal should be applied. (In the case of cross border advertising and solicitation see also section 14.)

SECTION 7

Publicity*

- 7.1 In the marketing and promotion of themselves and their work, professional accountants should:
 - (a) not use means which brings the profession into disrepute;
 - (b) not make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; and
 - (c) not denigrate the work of other accountants.

* For definitions see pages 1

PART B — APPLICABLE TO PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 8

Independence

- 8.1 Professional accountants in public practice when undertaking a **reporting assignment**,* should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.
- 8.2 The following paragraphs indicate some of those situations which, because of the actual or apparent lack of independence, would give a reasonable observer grounds for doubting the independence of a professional accountant in public practice.¹

Financial Involvement with, or in the Affairs of, Clients

- 8.3 Financial involvement with a client affects independence and may lead a reasonable observer to conclude that it has been impaired. Such involvement can arise in a number of ways such as:
- (a) By direct financial interest in a client.
 - (b) By indirect material financial interest in a client, e.g., by being a trustee of any trust or executor or administrator of any estate if such trust or estate has a financial interest in a client **company**.*
 - (c) By loans to or from the client or any officer, director or principal shareholder of a client company.
 - (d) By holding a financial interest in a joint venture with a client or employee(s) of a client.
 - (e) By having a financial interest in a non-client that has an **investor*** or **investee*** relationship with the client.

Commentary

Independence is impaired when a professional accountant in public practice has or is committed to acquire a direct or indirect material financial interest in a company for which the professional accountant in public practice provides professional services requiring independence. A direct financial interest includes an interest held by the spouse or dependent child of the professional accountant in public practice and in some countries may be extended to include other close relatives.

When the professional accountant in public practice holds or advises on investing in shares in an audit client on behalf of a third party, e.g., a trust, the appearance of independence is at risk. This is because responsibilities to the third party may conflict with responsibilities to the audit client.

In the case of trustee shareholdings, if a sole practitioner or a partner in a **practice*** or spouse or dependent child of that sole practitioner or partner is a trustee of a trust with a holding in shares material to the size of the issued share capital of the company or the total assets of the trust, the practice should not accept a reporting assignment on that company. The same rule should be applied in the case of those who serve as executors and administrators of any estate.

Shares in a client may be involuntarily acquired as when a professional accountant in public practice inherits such shares or marries a shareholder or in a take-over situation. In these cases, the shares should be disposed of at the earliest practicable date or the professional accountant in public practice should decline any further reporting assignment on that company.

* For definitions see pages 1

¹ For the purposes of Paragraph 8.3 the term “professional accountant in public practice” is restricted to:
an individual performing professional services requiring independence;
all partners or proprietors in the practice;
all professional employees engaged in the reporting assignment; and
all managerial employees located in an office participating in a significant part of the reporting assignment.

Neither a professional accountant in public practice nor his or her spouse or dependent child should make a loan to a client or guarantee a client's borrowings or accept a loan from a client or have borrowings guaranteed by a client. This latter proscription does not apply to loans to or from banks or other similar financial institutions when made under normal lending procedures, terms and requirements; to home mortgages or to current or deposit accounts with banks, building societies, etc.

When a non-client investee is material to a client investor, any direct or material indirect financial interest of the professional accountant in the non-client investee would be considered to impair the professional accountant's independence with respect to the client. Likewise, where a client investee is material to a non-client investor, any direct or material indirect financial interest of the professional accountant in the non-client investor would be considered to impair the professional accountant's independence with respect to the client.

Other relationships, such as client non-client joint ventures, may affect the appearance of independence. In general, in a joint venture situation, an immaterial financial interest of the professional accountant in the non-client investor would not impair the independence of the professional accountant with respect to the client investor provided that the professional accountant could not significantly influence the non-client investor. If the professional accountant does not and could not reasonably be expected to have knowledge of the financial interests or relationships involving the joint ventures, the professional accountant's independence would not be considered to be impaired.

Generally, the professional accountant should be independent of a client and all its parents, subsidiaries and affiliates.

Appointments in Companies

8.4 When professional accountants in public practice are or were, within the period under current review or immediately preceding an assignment:

- (a) a member of the board, an officer or employee of a company; or
- (b) a partner of, or in the employment of, a member of the board or an officer or employee of a company;

they would be regarded as having an interest which could detract from independence when reporting on that company.

Commentary

It is common practice to prohibit professional accountants in public practice in such situations being appointed as auditors of the companies concerned. It is also clearly desirable that they should not accept from such companies other assignments on which an opinion is required. In the situation described above, it is suggested that the period immediately preceding the assignment should be no less than two years or as required by appropriate legislation.

Provision of Other Services to Audit Clients

8.5 When a professional accountant in public practice, in addition to carrying out an audit or other reporting function, provides other services to a client, care should be taken not to perform management functions or make management decisions, responsibility for which remains with the board of directors and management.

Commentary

It is economic in terms of skill and effort for professional accountants in public practice to be able to offer other financial and management consultancy services to their clients since they already have a close familiarity with the clients' businesses. Many companies (particularly the smaller ones) would be adversely affected if they were denied the right to obtain other services from their auditors. In the course of performing their professional services, professional accountants in public practice offer advice. For example, particularly in the case of smaller businesses, the audit of the accounts and advice on the provision to be made for taxes are often so inextricably linked that they cannot be separated. Moreover, one key concept in auditing involves examination of the system of internal control which necessarily involves suggestions for improvement. For these reasons it is impracticable to define the limitations on the advice which a professional accountant in public practice may give.

The services provided by a professional accountant in public practice in the fields of management consultancy and taxation are advisory services. Such services should not usurp the management functions of client companies. The independence of a professional accountant in public practice is not impaired by offering advisory services, provided there is no involvement in or responsibility assumed for management decisions. The provision of other professional services is not in principle a factor in determining whether the professional accountant in public practice is independent. Nevertheless, the professional accountant in public practice should be careful not to go beyond the advisory function into the management sphere. A professional accountant in public practice, who has advised on the installation of a stock recording system, should carry out a normal audit review on the working of the system, as failure to take all normal audit steps in relation to that system has an adverse impact on competence and independence.

The preparation of accounting records is a service which is frequently requested of a professional accountant in public practice, particularly by smaller clients, whose businesses are not sufficiently large to employ an adequate internal accounting staff. It is unlikely that larger clients need this service other than in exceptional circumstances. In all cases in which independence is required and in which a professional accountant in public practice is concerned in the preparation of accounting records for a client, the following requirements should be observed:

- (a) The professional accountant in public practice should not have any relationship or combination of relationships with the client or any conflict of interest which would impair integrity or independence.
- (b) The client should accept responsibility for the statements.
- (c) The professional accountant in public practice should not assume the role of employee or of management conducting the operations of an enterprise.
- (d) Staff assigned to the preparation of accounting records ideally should not participate in the examination of such records. The fact that the professional accountant in public practice has processed or maintained certain records does not eliminate the need to make sufficient audit tests.

Personal and Family Relationships

- 8.6 Personal and family relationships can affect independence. There is a particular need to ensure that an independent approach to any assignment is not endangered as a consequence of any personal or family relationship.

Commentary

It is recognized that it would be impracticable to attempt to prescribe in detail in ethical requirements the permissible extent of a personal relationship between a professional accountant in public practice and a client,² or those occupying responsible executive positions (e.g., director, chief executive, financial officer or another employee in a similar position) with a client.

For example, these may arise when a professional accountant in public practice has a mutual business interest with an officer or employee of a client or has a material interest in a joint venture with a client.

Family relationships which always pose an unacceptable threat to independence are those in which a sole practitioner or a partner in a practice, or an employee engaged on the assignment relating to the client, is the spouse, dependent child, the parent or grandparent, or relative living in a common household, of the client.

Fees

- 8.7 When the receipt of recurring fees from a client or group of connected clients, represents a large proportion of the total gross fees of a professional accountant in public practice or of the practice as a whole, the dependence on that client or group of clients should inevitably come under scrutiny and could raise doubts as to independence.

² In this context "client" includes the owner of the business, the principal shareholders, the executive directors and the financial officer.

Commentary

It is not possible to state precisely what constitutes an unacceptable proportion of total fees emanating from one client or group of connected clients. However, if such fees are the only or the substantial part of the gross income, the professional accountant in public practice should carefully consider whether independence has been impaired. A similar situation may arise if fees due from a client for professional services remain unpaid for an extended period of time, especially if a substantial part is not paid before the issue of the report of the professional accountant in public practice for the following year. Allowances should be made for new practices seeking to establish themselves or practices which are planning to cease operations. Exemptions should be made for a branch office which is reliant upon one client or group of connected clients. For example, this might be the case if the branch office is auditing the financial statements of a client of the practice as a whole and that client forms a major part of the business of the branch office. In such circumstances, professional services for that client or group should be the subject of review by a partner from another office.

Contingency Fees

- 8.8 Subject to paragraph 8.9, professional services should not be offered or rendered to a client under an arrangement whereby no fee will be charged unless a specified finding or result is obtained or when the fee is otherwise contingent upon the findings or results of such services.

Commentary

Fees should not be regarded as being contingent if fixed by a court or other public authority.

Fees charged on a percentage or similar basis should be regarded as contingent fees.

- 8.9 Although charging contingent fees is permitted, such engagements should be limited to those for which independence is not required.

Goods and Services

- 8.10 Acceptance of goods and services from a client may be a threat to independence. Acceptance of undue hospitality poses a similar threat.

Commentary

Goods and services should not be accepted by professional accountants in public practice, their spouses or dependent children except on business terms no more favorable than those generally available to others. Hospitality and gifts on a scale which is not commensurate with the normal courtesies of social life should not be accepted.

Ownership of the Capital

- 8.11 The capital of a practice should be owned entirely by professional accountants in public practice.

Former Partners

- 8.12 A partner in a practice may leave the practice by resignation, termination, retirement, or sale of the practice. Such a partner may accept an appointment with a client of the practice, of which he or she is a former partner when an audit or other reporting function is being performed by that practice of which he or she is a former partner. In such circumstances, the independence of the practice would not be impaired.

- (a) Payments of the amounts due to a former partner for his or her interest in the practice and for unfunded, vested retirement benefits are made in accordance with a schedule that is fixed as to both payment dates and amounts. In addition, the amounts owed should be such that they do not cause a substantial doubt about the practices' ability to continue as a going concern.
- (b) The former partner does not participate or appear to participate in the practices' business or professional activities whether or not compensated. Indications of participation include the provision of office space and related amenities to the former partner by the practice.

Actual or Threatened Litigation

- 8.13 Litigation involving the professional accountant in public practice and a client may cause concern that the normal relationship with the client is affected to the extent that the professional accountant's independence and objectivity may be impaired.

Commentary

The commencement by a client or other of proceedings against the professional accountant in public practice, or the commencement of litigation by the professional accountant in public practice alleging, e.g., fraud or deceit by the officers of a company, or substandard performance of the client's audit by the accountant would be considered to impair independence. Such commencement or a credible threat to commence or a declared intention to commence legal action against a professional accountant in public practice relating to the affairs of the company, or vice versa, may cause the professional accountant in public practice and the company to be placed in positions which may affect the objectivity of the professional accountant in public practice. Thus, the ability to report fairly and impartially on the company's financial statements may be affected. At the same time, the existence of such action (or threat of action) may affect the willingness of the management of the company to disclose relevant information to the professional accountant in public practice.

It is not possible to specify precisely the point at which it would become improper for the professional accountant to continue to report. However, the professional accountant in public practice should have regard to circumstances when litigation might be perceived by the public as likely to affect the accountant's independence.

Long Association of Senior Personnel with Audit Clients

- 8.14 The use of the same senior personnel on an audit engagement over a prolonged period of time may pose a threat to independence. The professional accountant in public practice should take steps to ensure that objectivity and independence are maintained on the engagement.

Commentary

Professional relationships take time to develop, but once developed, they usually lead to maximum efficiency and effectiveness. Continuity of senior personnel on audit engagements is ordinarily to be encouraged both from the standpoint of the client and the professional accountant in public practice. As with personal and family relationships in 8.6 above, there is a concern that a long involvement by a single individual with an audit client could lead to the formation of a close relationship which could be perceived to be a threat to objectivity and independence. Additionally, questions of quality control are affected, in that the professional accountant with continued familiarity may overly rely on that familiarity when carrying out audit procedures and making judgments on key audit decisions.

The professional accountant in public practice should take steps to provide for an orderly rotation of senior personnel serving on the engagement. When rotation is impractical, review procedures should be designed to achieve the same objectives. The timing and nature of rotation of engagement personnel, especially the engagement partner, depends on many practical considerations. Such a rotation should, however, provide for an orderly blend of experienced and replacement personnel as well as an orderly transition. Rotation may be impractical in small offices or when there are specializations relating to assignments. In such cases, alternative safeguards should be applied, such as the setting up of standing arrangements to consult externally with another suitably experienced professional accountant or with any available service provided by ICAN for such purpose.

SECTION 9

Professional Competence and Responsibilities Regarding the Use of Non-Accountants

- 9.1 Professional accountants in public practice should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance is obtained so as to enable them to satisfactorily perform such services. If a professional accountant does not have the competence to perform a specific part of the professional service, technical advice may be sought from experts such as other professional accountants, lawyers, actuaries, engineers, geologists, valuers.
- 9.2. In such situations, although the professional accountant is relying on the technical competence of the expert, the knowledge of the ethical requirements cannot be automatically assumed. Since the ultimate responsibility for the professional service rests with the professional accountant, the professional accountant should see that the requirements of ethical behavior are followed.
- 9.3. When using the services of experts who are not professional accountants, the professional accountant must take steps to see that such experts are aware of ethical requirements. Primary attention should be

paid to the fundamental principles in paragraph 14 of the Introduction to this Code. These principles would extend to any assignment in which such experts would participate.

- 9.4. The degree of supervision and the amount of guidance that will be needed will depend upon the individuals involved and the nature of the engagement. Examples of such guidance and supervision might include:
- asking individuals to read the appropriate ethical codes
 - requiring written confirmation of understanding of the ethical requirements, and
 - providing consultation when potential conflicts arise.
- 9.5 The professional accountant should also be alert to specific independence requirements or other risks unique to the engagement. Such situations will require special attention and guidance/supervision to see that ethical requirements are met.
- 9.6 If at any time the professional accountant is not satisfied that proper ethical behavior can be respected or assured, the engagement should not be accepted; or, if the engagement has commenced, it should be terminated.

SECTION 10

Fees and Commissions

- 10.1 Professional accountants in public practice who undertake professional services for a client, assume the responsibility to perform such services with integrity and objectivity and in accordance with the appropriate technical standards. That responsibility is discharged by applying the professional skill and knowledge which professional accountants in public practice have acquired through training and experience. For the services rendered, the professional accountant in public practice is entitled to remuneration.

Professional Fees

- 10.2 Professional fees should be a fair reflection of the value of the professional services performed for the client, taking into account:
- (a) The skill and knowledge required for the type of professional services involved.
 - (b) The level of training and experience of the persons necessarily engaged in performing the professional services.
 - (c) The time necessarily occupied by each person engaged in performing the professional services.
 - (d) The degree of responsibility that performing those services entails.
- 10.3 Professional fees should normally be computed on the basis of appropriate rates per hour or per day for the time of each person engaged in performing professional services. These rates should be based on the fundamental premise that the organization and conduct of the professional accountant in public practice and the services provided to clients are well planned, controlled and managed. They should take into account the factors set out in paragraph 10.2 and are influenced by the legal, social and economic conditions of each country. It is for each professional accountant in public practice to determine the appropriate rates.
- 10.4 A professional accountant in public practice 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.
- 10.5 When performing professional services for a client it may be necessary or expedient to charge a pre-arranged fee, in which event the professional accountant in public practice should estimate a fee taking into account the matters referred to in paragraphs 10.2 through 10.4.
- 10.6 It is not improper for a professional accountant in public practice to charge a client a lower fee than has previously been charged for similar services, provided the fee has been calculated in accordance with the factors referred to in paragraphs 10.2 through 10.4.

Commentary

The fact that a professional accountant in public practice secures work by quoting a fee lower than another is not improper. However, professional accountants in public practice who obtain work at fees significantly lower than those charged by an existing accountant, or quoted by others, should be aware that there is a risk of a perception that the quality of work could be impaired.

Accordingly, when deciding on a fee to be quoted to a client for the performance of professional services, a professional accountant should be satisfied that, as a result of the fee quoted:

- the quality of work will not be impaired and that due care will be applied to comply with all professional standards and quality control procedures in the performance of those services, and
- the client will not be misled as to the precise scope of services that a quoted fee is intended to cover and the basis on which future fees will be charged.

10.7 As stated in paragraph 8.8:

Professional services should not be offered or rendered to a client under an arrangement whereby no fee will be charged unless a specified finding or result is obtained or when the fee is otherwise contingent upon the findings or results of such services.

Commentary

Fees should not be regarded as being contingent if fixed by a court or other public authority.

10.8 The foregoing paragraphs relate to fees as distinct from reimbursement of expenses. Out-of-pocket expenses, in particular traveling expenses, attributable directly to the professional services performed for a particular client would normally be charged to that client in addition to the professional fees.

10.9 It is in the best interests of both the client and the professional accountant in public practice that the basis on which fees are computed and any billing arrangements are clearly defined, preferably in writing, before the commencement of the engagement to help in avoiding misunderstandings with respect to fees.

Commissions

10.10 The payment or receipt of a commission by a professional accountant in public practice could impair objectivity and independence. Subject to paragraph 10.13, a professional accountant in public practice should not, therefore, pay a commission to obtain a client nor should a commission be accepted for referral of a client to a third party. A professional accountant in public practice should not accept a commission for the referral of the products or services of others.

10.11 Payment and receipt of referral fees between professional accountants in public practice when no services are performed by the referring accountant are regarded as commissions for the purpose of paragraph 10.10.

10.12 A professional accountant in public practice may enter into an arrangement for the purchase of the whole or part of an accounting practice requiring payments to individuals formerly engaged in the practice or payments to their heirs or estates. Such payments are not regarded as commissions for the purpose of paragraph 10.10.

10.13 The payment and receipt of commissions are permitted only for such engagements for which independence is not required and the professional accountant in public practice should nonetheless disclose the facts to the client.

SECTION 11

Activities Incompatible with the Practice of Public Accountancy

11.1 A professional accountant in public practice should not concurrently engage in any business, occupation or activity which impairs or might impair integrity, objectivity or independence, or the good reputation of the profession and therefore would be incompatible with the rendering of professional services.

11.2 The rendering of two or more types of professional services concurrently does not by itself impair integrity, objectivity or independence.

- 11.3 The simultaneous engagement in another business, occupation or activity unrelated to professional services which have the effect of not allowing the professional accountant in public practice properly to conduct a professional practice in accordance with the fundamental ethical principles of the accountancy profession should be regarded as inconsistent with the practice of public accountancy.

SECTION 12

Clients' Monies

- 12.1 The professional accountant in public practice should not hold **clients' monies** if there is reason to believe that they were obtained from, or are to be used for, illegal activities.
- 12.2 A professional accountant in public practice entrusted with monies belonging to others should:
- (a) keep such monies separately from personal or firm monies;
 - (b) use such monies only for the purpose for which they are intended; and
 - (c) at all times, be ready to account for those monies to any persons entitled to such accounting.
- 12.3 A professional accountant in public practice should maintain one or more bank accounts for clients' monies. Such bank accounts may include a general **client account*** into which the monies of a number of clients may be paid.
- 12.4 Clients' monies received by a professional accountant in public practice should be deposited without delay to the credit of a client account, or—if in the form of documents of title to money and documents of title which can be converted into money—be safeguarded against unauthorized use.
- 12.5 Monies may only be drawn from the client account on the instructions of the client.
- 12.6 Fees due from a client may be drawn from client's monies provided the client, after being notified of the amount of such fees, has agreed to such withdrawal.
- 12.7 Payments from a client account shall not exceed the balance standing to the credit of the client.
- 12.8 When it seems likely that the client's monies remain on client account for a significant period of time, the professional accountant in public practice should, with the concurrence of the client, place such monies in an interest bearing account within a reasonable time.
- 12.9 All interest earned on clients' monies should be credited to the client account.
- 12.10 Professional accountants in public practice should keep such books of account as will enable them, at any time, to establish clearly their dealings with clients' monies in general and the monies of each individual client in particular. A statement of account should be provided to the client at least once a year.

SECTION 13

Relations with Other Professional Accountants in Public Practice

Accepting New Assignments

- 13.1 The extension of the operations of a business undertaking frequently results in the formation of branches or subsidiary companies at locations where an **existing accountant*** does not practice. In these circumstances, the client or the existing accountant in consultation with the client may request a **receiving accountant*** practicing at those locations to perform such professional services as necessary to complete the assignment.
- 13.2 Referral of business may also arise in the area of special services or special tasks. The scope of the services offered by professional accountants in public practice continues to expand and the depth of knowledge which is needed to serve the public often calls for special skills. It is impracticable for any one professional accountant in public practice to acquire special expertise or experience in all fields of

* For definitions see pages 1

- accountancy. Some professional accountants in public practice may decide that it is neither appropriate nor desirable to develop within their firms the complete range of special skills which may be required.
- 13.3 Professional accountants in public practice should only undertake such services which they can expect to complete with professional competence. It is essential therefore for the profession in general and in the interests of their clients that professional accountants in public practice be encouraged to obtain advice when appropriate from those who are competent to provide it.
- 13.4 An existing accountant without a particular skill may however be reluctant to refer a client to another professional accountant in public practice who may possess that skill, because of the fear of losing existing business to the other professional accountant in public practice. As a result, clients may be deprived of the benefit of advice which they are entitled to receive.
- 13.5 The wishes of the client should be paramount in the choice of professional advisers, whether or not special skills are involved. Accordingly, a professional accountant in public practice should not attempt to restrict in any way the client's freedom of choice in obtaining special advice, and when appropriate should encourage a client to do so.
- 13.6 The services or advice of a professional accountant in public practice having special skills may be sought in one or other of the following ways:
- (a) by the client
 - (i) after prior discussion and consultation with the existing accountant;
 - (ii) on the specific request or recommendation of the existing accountant; and
 - (iii) without reference to the existing accountant; or
 - (b) by the existing accountant with due observance of the duty of confidentiality.
- 13.7 When a professional accountant in public practice is asked to provide services or advice, inquiries should be made as to whether the prospective client has an existing accountant. In cases where there is an existing accountant who will continue to provide professional services, the procedures set out in paragraphs 13.8-13.14 should be observed. If the appointment will result in another professional accountant in public practice being superseded, the procedures set out in paragraphs 13.15-13.26 should be followed.
- 13.8 The receiving accountant should limit the services provided to the specific assignment received by referral from the existing accountant or the client unless otherwise requested by the client. The receiving accountant also has the duty to take reasonable steps to support the existing accountant's current relationship with the client and should not express any criticism of the professional services of the existing accountant without giving the latter an opportunity to provide all relevant information.
- 13.9 A receiving accountant who is asked by the client to undertake an assignment of a type which is clearly distinct from that being carried out by the existing accountant or from that initially received by referral from the existing accountant or from the client should regard this as a separate request to provide services or advice. Before accepting any appointments of this nature, the receiving accountant should advise the client of the professional obligation to communicate with the existing accountant and should immediately do so preferably in writing, advising of the approach made by the client and the general nature of the request as well as seeking all relevant information, if any, necessary to perform the assignment.
- 13.10 Circumstances sometimes arise when the client insists that the existing accountant should not be informed. In this case, the receiving accountant should decide whether the client's reasons are valid. In the absence of special circumstances a mere disinclination by the client for communication with the existing accountant would not be a satisfactory reason.
- 13.11 The receiving accountant should:
- (a) comply with the instructions received from the existing accountant or the client to the extent that they do not conflict with relevant legal or other requirements; and
 - (b) ensure, insofar as it is practicable to do so, that the existing accountant is kept informed of the general nature of the professional services being performed.

- 13.12 When there are two or more other professional accountants in public practice performing professional services for the client concerned it may be appropriate to notify only the relevant professional accountant in public practice depending on the specific services being performed.
- 13.13 When appropriate the existing accountant, in addition to issuing instructions concerning referred business, should maintain contact with the receiving accountants and cooperate with them in all reasonable requests for assistance.
- 13.14 When the opinion of a professional accountant, other than the existing accountant, is sought on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions, the professional accountant should be alert to the possibility of the opinion creating undue pressure on the judgment and objectivity of the accountant. An opinion given without full and proper facts can cause difficulty to the receiving accountant if the opinion is challenged or the receiving accountant is subsequently appointed by the company. Accordingly, the professional accountant should seek to minimize the risk of giving inappropriate guidance by ensuring that he or she has access to all relevant information. When there is a request for an opinion in the above circumstances there is a requirement for communication with the existing accountant. It is important that the existing accountant, with the permission of the client, provide the receiving accountant with all requested relevant information about the client. With the permission of the client, the receiving accountant should also provide a copy of the final report to the existing accountant. If the client does not agree to these communications, then the engagement should ordinarily not be performed.

Superseding Another Professional Accountant in Public Practice

- 13.15 The proprietors of a business have an indisputable right to choose their professional advisers and to change to others should they so desire. While it is essential that the legitimate interests of the proprietors are protected, it is also important that a professional accountant in public practice who is asked to replace another professional accountant in public practice has the opportunity to ascertain if there are any professional reasons why the appointment should not be accepted. This cannot effectively be done without direct communication with the existing accountant. In the absence of a specific request, the existing accountant should not volunteer information about the client's affairs.
- 13.16 Communication enables a professional accountant in public practice to ascertain whether the circumstances in which a change in appointment is proposed are such that the appointment can properly be accepted and also whether there is a wish to undertake the engagement. In addition, such communication helps to preserve the harmonious relationships which should exist between all professional accountants in public practice on whom clients rely for professional advice and assistance.
- 13.17 The extent to which an existing accountant can discuss the affairs of the client with the proposed professional accountant in public practice depend on:
- (a) whether the client's permission to do so has been obtained; and/or
 - (b) the legal or ethical requirements relating to such disclosure, if any.
- 13.18 The proposed professional accountant in public practice should treat in the strictest confidence and give due weight to any information provided by the existing accountant.
- 13.19 The information provided by the existing accountant may indicate, for example, that the ostensible reasons given by the client for the change are not in accordance with the facts. It may disclose that the proposal to make a change in professional accountants in public practice was made because the existing accountants stood their ground and properly carried out the duties as professional accountants in public practice despite opposition or evasion on an occasion on which important differences of principles or practice have arisen with the client.
- 13.20 Communication between the parties therefore serves:
- (a) To protect a professional accountant in public practice from accepting an appointment in circumstances where all the pertinent facts are not known.
 - (b) To protect the minority proprietors of a business who may not be fully informed of the circumstances in which the change is proposed.
 - (c) To protect the interests of the existing accountant when the proposed change arises from, or is an attempt to interfere with, the conscientious exercise of the existing accountant's duty to act as an independent professional.

- 13.21 Before accepting an appointment involving recurring professional services hitherto carried out by another professional accountant in public practice, the proposed professional accountant in public practice should:
- (a) Ascertain if the prospective client has advised the existing accountant of the proposed change and has given permission, preferably in writing, to discuss the client's affairs fully and freely with the proposed professional accountant in public practice.
 - (b) When satisfied with the reply received from prospective client, request permission to communicate with the existing accountant. If such permission is refused or the permission referred to in a) above is not given, the proposed professional accountant in public practice should, in the absence of exceptional circumstances of which there is full knowledge, and unless there is satisfaction as to necessary facts by other means, decline the appointment.
 - (c) On receipt of permission, ask the existing accountant, preferably in writing:
 - (i) to provide information on any professional reasons which should be known before deciding whether or not to accept the appointment and, if there are such matters; and
 - (ii) to provide all the necessary details to be able to come to a decision.
- 13.22 The existing accountant, on receipt of the communication referred to in paragraph 13.21 (c) should forthwith:
- (a) Reply, preferably in writing, advising whether there are any professional reasons why the proposed professional accountant in public practice should not accept the appointment.
 - (b) If there are any such reasons or other matters which should be disclosed, ensure that the client has given permission to give details of this information to the proposed professional accountant in public practice. If permission is not granted, the existing accountant should report that fact to the proposed professional accountant in public practice.
 - (c) On receipt of permission from the client, disclose all information needed by the proposed professional accountant in public practice to be able to decide whether or not to accept the appointment, and discuss freely with the proposed professional accountant in public practice all matters relevant to the appointment of which the latter should be aware.
- 13.23 If the proposed professional accountant in public practice does not receive, within a reasonable time, a reply from the existing accountant and there is no reason to believe that there are any exceptional circumstances surrounding the proposed change, the proposed professional accountant in public practice should endeavor to communicate with the existing accountant by some other means. If unable to obtain a satisfactory outcome in this way, the proposed professional accountant in public practice should send a further letter, stating that there is an assumption that there is no professional reason why the appointment should not be accepted and that there is an intention to do so.
- 13.24 The fact that there may be fees owing to the existing accountant is not a professional reason why another professional accountant in public practice should not accept the appointment.
- 13.25 The existing accountant should promptly transfer to the new professional accountant in public practice all books and papers of the client which are or may be held after the change in appointment has been effected and should advise the client accordingly, unless the professional accountant in public practice has a legal right to withhold them.
- 13.26 Certain organizations, either because of legislative requirements or otherwise, call for submissions or tenders, e.g., competitive bids, in relation to professional services offered by accountants in public practice. In reply to a public advertisement or an unsolicited request to make a submission or submit a tender, a professional accountant in public practice should, if the appointment may result in the replacement of another professional accountant in public practice, state in the submission or tender that before acceptance the opportunity to contact the other professional accountant in public practice is required so that inquiries may be made as to whether there are any professional reasons why the appointment should not be accepted. If the submission or tender is successful, the existing accountant should then be contacted.

SECTION 14

Advertising and Solicitation

- 14.1 Publicity by individual professional accountants in public practice is acceptable provided:
- (a) it has as its object the notification to the public or such sectors of the public as are concerned, of matters of fact in a manner that is not false, misleading or deceptive;
 - (b) it is in good taste;
 - (c) it is professionally dignified; and
 - (d) it avoids frequent repetition of, and any undue prominence being given to the name of the professional accountant in public practice.
- 14.2 The examples which follow are illustrative of circumstances in which publicity is acceptable and the matters to be considered in connection therewith subject always to the overriding requirements mentioned in the preceding paragraph.

Appointments and Awards

It is in the interests of the public and the accountancy profession that any appointment or other activity of a professional accountant in a matter of national or local importance, or the award of any distinction to a professional accountant, should receive publicity and that membership of the professional body should be mentioned. However, the professional accountant should not make use of any of the aforementioned appointments or activities for personal professional advantage.

Professional Accountants Seeking Employment or Professional Business

A professional accountant may inform interested parties through any medium that a partnership or salaried employment of an accountancy nature is being sought. The professional accountant should not, however, publicize for subcontract work in a manner which could be interpreted as seeking to procure professional business. Publicity seeking subcontract work may be acceptable if placed only in the professional press and provided that neither the professional accountant's name, address or telephone number appears in the publicity. A professional accountant may write a letter or make a direct approach to another professional accountant when seeking employment or professional business.

Directories

A professional accountant may be listed in a directory provided neither the directory itself nor the entry could reasonably be regarded as a promotional advertisement for those listed therein. Entries should be limited to name, address, telephone number, professional description and any other information necessary to enable the user of the directory to make contact with the person or organization to which the entry relates.

Books, Articles, Interviews, Lectures, Radio and Television Appearances

Professional accountants who author books or articles on professional subjects may state their name and professional qualifications and give the name of their organization but shall not give any information as to the services that firm provides.

Similar provisions are applicable to participation by a professional accountant in a lecture, interview or a radio or television program on a professional subject. What professional accountants write or say, however, should not be promotional of themselves or their firm but should be an objective professional view of the topic under consideration. Professional accountants are responsible for using their best endeavors to ensure that what ultimately goes before the public complies with these requirements.

Training Courses, Seminars, etc.

A professional accountant may invite clients, staff or other professional accountants to attend training courses or seminars conducted for the assistance of staff. Other persons should not be invited to attend such training courses or seminars except in response to an unsolicited request. The requirement should in no way prevent professional accountants from providing training services to other professional bodies, associations or educational institutions which run courses for their members or the public. However, undue prominence should not be given to the name of a professional accountant in any booklets or documents issued in connection therewith.

Booklets and Documents Containing Technical Information

Booklets and other documents bearing the name of a professional accountant and giving technical information for the assistance of staff or clients may be issued to such persons or to other professional accountants.

Other persons should not be issued with such booklets or documents except in response to an unsolicited request.

Staff Recruitment

Genuine vacancies for staff may be communicated to the public through any medium in which comparable staff vacancies normally appear. The fact that a job specification necessarily gives some detail as to one or more of the services provided to clients by the professional accountant in public practice is acceptable but it should not contain any promotional element. There should not be any suggestion that the services offered are superior to those offered by other professional accountants in public practice as a consequence of size, associations, or for any other reason.

In publications such as those specifically directed to schools and other places of education to inform students and graduates of career opportunities in the profession, services offered to the public may be described in a businesslike way.

More latitude may also be permissible in a section of a newspaper devoted to staff vacancies than would be allowed if the vacancy appeared in a prominent position elsewhere in a newspaper on the grounds that it would be most unlikely that a potential client would use such media to select a professional adviser.

Publicity on Behalf of Clients

A professional accountant in public practice may publicize on behalf of clients, primarily for staff. However, the professional accountant in public practice should ensure that the emphasis in the publicity is directed towards the objectives to be achieved for the client.

Brochures and Firm Directories

A professional accountant in public practice may issue to clients or, in response to an unsolicited request, to a non-client:

- (a) a factual and objectively worded account of the services provided; and
- (b) a directory setting out names of partners, office addresses and names and addresses of associated firms and correspondents.

Stationery and Nameplates

Stationery of professional accountants in public practice should be of an acceptable professional standard and comply with the requirements of the law and of ICAN as to names of partners, principals and others who participate in the practice, use of professional descriptions and designatory letters, cities or countries where the practice is represented, logotypes, etc. The designation of any services provided by the practice as being of specialist nature should not be permitted. Similar provisions, where applicable, should apply to nameplates.

Newspaper Announcements

Appropriate newspapers or magazines may be used to inform the public of the establishment of a new practice, of changes in the composition of a partnership of professional accountants in public practice, or of any alteration in the address of a practice.

Such announcements should be limited to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the newspaper or magazine and number of insertions.

Inclusion of the Name of a Professional Accountant in Public Practice in a Document Issued by a Client

When a client proposes to publish a report by a professional accountant in public practice dealing with the client's existing business affairs or in connection with the establishment of a new business venture, the professional accountant in public practice should take steps to ensure that the context in which the report is published is not such as might result in the public being misled as to the nature and meaning of the report. In these circumstances, the professional accountant in public practice should advise the client that permission should first be obtained before publication of the document.

Similar consideration should be given to other documents proposed to be issued by a client containing the name of a professional accountant in public practice acting in an independent professional capacity. This does not preclude the inclusion of the name of a professional accountant in public practice in the annual report of a client.

When professional accountants in their private capacity are associated with, or hold office in, an organization, the organization may use their name and professional status on stationery and other documents. The professional accountant in public practice should ensure that this information is not used in such a way as might lead the public to believe that there is a connection with the organization in an independent professional capacity.

PART C — APPLICABLE TO EMPLOYED PROFESSIONAL ACCOUNTANTS

The following sections contain guidance which is particularly relevant to professional accountants working in private sector, public sector or education or non-government organization. Professional accountants employed in public practice should be aware they may find that the principles set out below are also of application to their particular circumstances. If professional accountants employed in practice are in doubt as to the applicability of any particular guidance, they should seek assistance from ICAN.

SECTION 15

Conflict of Loyalties

- 15.1 Employed professional accountants owe a duty of loyalty to their employer as well as to their profession and there may be times when the two are in conflict. An employee's normal priority should be to support his or her organization's legitimate and ethical objectives and the rules and procedures drawn up in support of them. However, an employee cannot legitimately be required to:
- (a) break the law;
 - (b) breach the rules and standards of their profession;
 - (c) lie to or mislead (including misleading by keeping silent) those acting as auditors to the employer;
or
 - (d) put their name to or otherwise be associated with a statement which materially misrepresents the facts.
- 15.2 Differences in view about the correct judgment on accounting or ethical matters should normally be raised and resolved within the employee's organization, initially with the employee's immediate superior and possibly thereafter, where disagreement about a significant ethical issue remains, with higher levels of management or non executive directors.
- 15.3 If employed accountants cannot resolve any material issue involving a conflict between their employers and their professional requirements they may, after exhausting all other relevant possibilities, have no other recourse but to consider resignation. Employees should state their reasons for doing so to the employer but their duty of confidentiality normally precludes them from communicating the issue to others (unless legally or professionally required to do so).
- 15.4 For further guidance as to the considerations involved see Section 2—Resolution of Ethical Conflicts.

SECTION 16

Support for Professional Colleagues

- 16.1 A professional accountant, particularly one having authority over others, should give due weight for the need for them to develop and hold their own judgment in accounting matters and should deal with differences of opinion in a professional way.

SECTION 17

Professional Competence

- 17.1 A professional accountant employed in private sector, public sector or education or non-government organization may be asked to undertake significant tasks for which he or she has not had sufficient specific training or experience. When undertaking such work the professional accountant should not mislead the employer as to the degree of expertise or experience he or she possesses, and where appropriate expert advice and assistance should be sought.

SECTION 18

Presentation of Information

- 18.1 A professional accountant is expected to present financial information fully, honestly and professionally and so that it will be understood in its context.
- 18.2 Financial and non-financial information should be maintained in a manner that describes clearly the true nature of business transactions, assets or liabilities and classifies and records entries in a timely and proper manner, and professional accountants should do everything that is within their powers to ensure that this is the case.