



Code of Professional Ethics

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The *AAT Code of Professional Ethics* is based on the *Code of Ethics for Professional Accountants* of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) in April 2010 and is used with permission of IFAC.

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Foreword

Being a member of AAT is more than a qualification. AAT is well recognised and respected throughout a wide range of businesses and, in order to maintain this reputation and to continue to offer quality training and support, we require our members to have a professional and ethical approach throughout their lives. It is because of our exceptionally high standards, quality training and the professionalism of our members that we are so highly regarded. This is a benefit to us as an Association and to you as a member. To help our members maintain these standards and offer the highest levels of professional service at all times, we publish the *AAT Code of Professional Ethics* which sets out a code of fundamental ethical principles and supporting guidance.

The decisions you make in the everyday course of your professional lives can have real ethical implications. This is where the code helps. It:

- sets out the required standards of professional behaviour with guidance to help you achieve them
- helps you to protect the public interest
- helps you to maintain AAT's good reputation.

Introduction

- 1.1 The *AAT Code of Professional Ethics* replaces the *Guidelines on Professional Ethics*. This code was revised in 2011, and approved by AAT Council, to come into effect on 1 September 2011.
- 1.2 It is based on the *Code of Ethics for Professional Accountants* approved by the International Ethics Standards Board for Accountants (IESBA) in April 2009. AAT is an associate member of IFAC. The mission of IFAC, as set out in its constitution, is "the worldwide development and enhancement of an accountancy profession with harmonised standards, able to provide services of consistently high quality in the public interest." In pursuing this mission, the IFAC Board has established the International Ethics Standards Board for Accountants (IESBA) to develop and issue, under its own authority, high quality ethical standards and other pronouncements for members for use around the world. The *IESBA Code of Ethics for Professional Accountants* (*IESBA Code*) on which this code is based establishes ethical requirements for IFAC members.
- 1.3 In keeping with the IESBA Code, this code adopts a principles-based approach. It does not attempt to cover every situation where a member may encounter professional ethical issues, prescribing the way in which he or she should respond. Instead, it adopts a value system, focusing on fundamental professional and ethical principles which are at the heart of proper professional behaviour and which members must therefore follow. To supplement this, the code also provides detailed guidance of specific relevance to AAT members to help ensure that they follow the fundamental principles both in word and in spirit in all of their professional activities.
- 1.4 This code therefore:
 - (i) sets out a code of five **fundamental principles** which members must follow:
 - integrity
 - objectivity
 - professional competence and due care
 - confidentiality
 - professional behaviour.
 - (ii) provides a **conceptual framework** which members must apply to enable them to identify and evaluate threats to compliance with the fundamental principles and to respond appropriately to them
 - (iii) provides guidance and illustrations on how to apply the conceptual framework in practice both generally and in specific problem situations. Members should consider these and apply them as appropriate to ensure that they adhere to the fundamental principles in their own situation.

- 1.5 This code applies to all student, affiliate, full and fellow members, whether acting for reward or not. Unless otherwise indicated, the term 'member' used for the purposes of this code, is deemed to include all these categories.
- 1.6 The code is in three parts
- part A applies to all members.
 - part B represents additional guidance which applies specifically to members in practice.
 - part C applies specifically to members in business.

See the definitions of 'member in practice' and 'member in business' in the glossary of terms below.

- 1.7 The word "shall" is used in this code when members are required to comply with the specific.
- 1.8 The word "evaluate" is used in this code when members are required to think about several matters.
- 1.9 The word "determine" is used in this code when members are required to conclude and make a decision.
- 1.10 The code is based on the laws effective in the UK which members are expected to comply with as a minimum requirement. Members working or living overseas are expected to know and apply the laws of the overseas country, having taken local legal advice if necessary. Where this code refers to legal issues, it does not purport to give definitive legal advice or to cover every situation, nor does this code highlight every legal issue that members may need to consider. Members who encounter problems in relation to legal aspects are recommended to seek their own legal advice.
- 1.11 There may be occasions when members, whether having sought independent advice or not, and having considered the application of *the Code of Professional Ethics* in a particular situation, are still in doubt about the proper course of action to be taken. In such cases they should contact the Ethics Advice line on: 0845 863 0787 (UK)
+44 (0)20 7397 3014 (outside UK), e: ethics@aat.org.uk giving all the relevant facts.
- 1.12 Members should note that disciplinary action may be taken for non-compliance with this code where the member's conduct is considered to prejudice their status as a member or to reflect adversely on the reputation of AAT.
- 1.13 Members should note that where they are also a member of another professional or regulatory body which is a member of a chartered or certified accountancy body, there may be differences in some areas between the professional and ethical conduct requirements of the different bodies. Where there are differences, members should follow the more stringent provision and must do so where the more stringent provision is an AAT requirement.

- 1.14 The accountancy profession, including the part represented by AAT members, is committed to the following objectives:
- (i) the mastering of particular skills and techniques acquired through learning and education and maintained through continuing professional development
 - (ii) development of an ethical approach to work, as well as to employers and clients. This is acquired by experience and professional supervision under training and is safeguarded by strict ethical and disciplinary codes
 - (iii) acknowledgement of duties to society as a whole in addition to duties to the employer or the client
 - (iv) an outlook which is essentially objective, obtained by being fair minded and free from conflicts of interest
 - (v) rendering services to the highest standards of conduct and performance
 - (vi) achieving acceptance by the public that members provide accountancy services in accordance with these high standards and requirements.

This code aims to assist members to achieve these objectives.

Definitions

In this Code of Professional Ethics, the following expressions have the following meanings assigned to them:

AAT

Association of Accounting Technicians.

Acceptable level

A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

Advertising

The communication to the public of information as to the services or skills provided by members in practice with a view to procuring professional business.

Anti money laundering legislation

The Proceeds of Crime Act 2002 (as amended), the Terrorism Act 2000 (as amended), the Money Laundering Regulations 2007, related statutory instruments and any amending or superseding legislation.

Associate

Business partner or colleague.

Assurance client

The responsible party that is the person (or persons) who:

- i) in a direct reporting engagement, is responsible for the subject matter or
- ii) in an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter. (For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)

Assurance engagement

An engagement in which a member in practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)

Assurance team

- i) All members of the engagement team for the assurance engagement.
- ii) All others within a firm who can directly influence the outcome of the assurance engagement, including:
 - a) 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 a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's chief executive
 - b) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement, and
 - c) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.
- iii) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.

Clearly insignificant

A matter that is deemed to be both trivial and inconsequential.

Close or personal relation/ relationship

A spouse (including a civil partner); a parent, child, grandparent, grandchild, sibling, aunt, uncle, nephew, niece or cousin (including in each case where applicable those related on a half, step or in-law basis); a dependant; or a person who would be regarded as a friend by a reasonable and informed third party having knowledge of all relevant information.

Contingent fee

A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.

Continuing professional development (CPD)

The process of a member continuously maintaining and developing knowledge, skills and competence to improve their performance at work.

Direct financial interest

A financial interest:

- i) owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others) or
- ii) beneficially owned through a collective investment vehicle, estate, trust or other
- iii) intermediary over which the individual or entity has control.

Director or officer

A person charged with or otherwise having significant influence or control of the governance of an entity (including a shadow director), regardless of his or her title, which may vary from country to country.

Engagement partner

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

Engagement quality control review

A process designed to provide an objective evaluation, before the report is issued, of the significant judgements the engagement team made and the conclusions they reached in formulating the report.

Engagement team

All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement. This also includes where only one person is performing the engagement.

Existing accountant

A member in practice, or an individual who is a member of another IFAC member body, currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.

Fiduciary relationship

A relationship which arises between a member in practice and his or her client where the trust and confidence in the relationship is such that the client is entitled to trust the member to act only in the client's interests and not in the member's own interest. This would be likely to include, for the purposes of this code, where the member acts as the client's agent.

Financial interest

An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial statements

A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

Financial statement audit client

An entity in respect of which a firm conducts a financial statement audit engagement.

When the client is a listed entity, the financial statement audit client will always include its related entities.

Financial statement audit engagement

A reasonable assurance engagement in which a member in practice expresses an opinion whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a statutory audit, which is a financial statement audit required by legislation, other regulation or other documents.

Financial statements on which the firm will express an opinion

In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- i) A sole practitioner, partnership or corporation of members.
- ii) An entity that controls such parties.
- iii) An entity controlled by such parties.

IFAC

International Federation of Accountants.

Independence

Independence is:

- i) independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional judgement
- ii) independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional scepticism had been compromised.

Indirect financial interest

A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.

Key review partner

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

Listed entity

An entity whose shares, stock or debt are quoted or listed on a recognised investment exchange, or are marketed under the regulations of a recognised investment exchange. A domestic or overseas investment exchange is recognised in the UK if recognised by the Financial Services Authority.

Member

A student, affiliate, full or fellow member of AAT.

Member in business

A member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a member contracted by such entities. This includes AAT members who are employed by others in such areas, as well as AAT members who work (whether or not in an employed capacity) in fields other than accountancy.

Member in practice

A member who provides accountancy, taxation or related consultancy services to the public or to another business on a self-employed basis, whether as a sole trader, or trading through a partnership or a limited company. This includes all AAT members who are registered, or who are required to register, annually with AAT in accordance with the Scheme for Members in Practice.

Money Laundering Regulations

The Money Laundering Regulations 2007 or any superseding regulations. These regulations are included in the definition of anti money laundering legislation but are specifically referred to throughout this guidance when necessary.

Money Laundering Reporting Officer (MLRO)

The officer within a firm who has been nominated to receive and assess internal reports of knowledge or suspicions of money laundering or terrorist financing.

Network

A larger structure:

- i) that is aimed at cooperation
- ii) that is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm

A firm that is part of a larger structure and:

- iv) uses a name in its firm name that is common to the larger structure
- v) shares significant professional resources with other firms in the larger structure
- vi) shares profits or costs with other firms within the larger structure.

An entity that controls, is controlled by, or is under common control with the firm through ownership, management or other means.

Professional accountant

An individual who is a member of an IFAC member body.

Professional services

Services which may involve accountancy or related skills performed by a member, possibly including accounting, auditing, taxation, consultancy and/or financial management.

Public interest entity

- i) A listed entity
- ii) An entity:
 - a) defined by regulation or legislation as a public interest entity
 - b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Related entity

An entity that has any of the following relationships with the client:

- i) an entity that has direct or indirect control over the client if the client is material to such entity
- ii) an entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity

- iii) an entity over which the client has direct or indirect control
- iv) an entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c)
- v) an entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.

Relevant person

As defined by Regulation 3 of the Money Laundering Regulations 2007, including (but not exhaustively):

- an external accountant - a firm or sole practitioner who by way of business provides accountancy services to other persons (members in practice)
- tax advisors - a firm or sole practitioner who by way of business provides advice about the tax affairs of other persons
- a trust or company service provider - a firm or sole practitioner who by way of business provides any of the following services to other persons:
 - i) forming companies or legal persons
 - ii) acting, or arranging for another person to act:
 - a) as a director or secretary of a company
 - b) as a partner of a partnership, or
 - c) in a similar position in relation to other legal persons
 - providing a registered office for a company, partnership or any other legal person or arrangement
 - acting, or arranging for another person to act as:
 - d) a trustee of an express trust or similar legal arrangement
 - e) a nominee shareholder for a person other than a company whose securities are listed on a regulated market.

Responsible party

The person (or persons) who is either:

- i) in a direct reporting assurance engagement, is responsible for the subject matter
- ii) in an assertion-based assurance engagement, is responsible for the subject matter information and may be responsible for the subject matter.

Review client

An entity in respect of which a firm conducts a review engagement.

Review engagement

An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review team

- i) All members of the engagement team for the review engagement
- ii) All others within a firm who can directly influence the outcome of the review engagement, including:
 - a) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent)
 - b) those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement

- c) those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement
- d) all those within a network firm who can directly influence the outcome of the review engagement.

SOCA

Serious Organised Crime Agency

Those charged with governance

The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

Working papers and records

Papers, background notes and reference materials that are used to prepare or complete other documents.

Part A General application of the code

Section 100 Introduction and code of fundamental principles

Section 110 Integrity

Section 120 Objectivity

Section 130 Professional competence and due care

Section 140 Confidentiality

Section 150 Professional behaviour

Section 160 Taxation services

Section 100 Introduction and code of fundamental principles

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, your responsibility as a member is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest members shall observe and comply with the code of ethical requirements set out in this code.

100.2 This code is in three parts. Part A establishes the code of fundamental principles of professional ethics for members and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles. Members are required to apply this conceptual framework to enable them to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are not clearly insignificant, to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.

100.3 Parts B and C illustrate how the conceptual framework can be applied in specific situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also provide examples of situations where safeguards are not available to address the threats and where the activity or relationship creating the threats should therefore be avoided. Part B applies to members in practice. Part C applies to members in business. Members in practice may also find the guidance in Part C relevant to their particular circumstances.

100.4 In this code the use of the word “shall” imposes a requirement on the member to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this code.

Fundamental principles

100.5 A member shall comply with the following fundamental principles.

- (i) **Integrity:** a member shall be straightforward and honest in all professional and business relationships.
- (ii) **Objectivity:** a member shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- (iii) **Professional competence and due care:** a member has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A member shall act diligently and in accordance with applicable technical and professional standards when providing professional services.

- (iv) **Confidentiality:** a member shall, in accordance with the law, respect the confidentiality of information acquired as a result of professional and business relationships and not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships shall not be used for the personal advantage of the member or third parties.
- (v) **Professional behaviour:** a member shall comply with relevant laws and regulations and avoid any action that brings our profession into disrepute.

Each of these fundamental principles is discussed in more detail in Sections 110–50.

Conceptual framework approach

- 100.6 The circumstances in which members operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires a member to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This conceptual framework approach requires members to identify, evaluate and respond to threats to compliance with the fundamental principles. It also requires that if identified threats are not clearly insignificant, a member shall, where appropriate, apply adequate safeguards to eliminate the threats or reduce them to an acceptable level, so that compliance with the fundamental principles is not compromised.
- 100.7 A member shall evaluate any threats to compliance with the fundamental principles when the member knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.8 A member shall take qualitative as well as quantitative factors into account when considering the significance of a threat. If a member cannot implement appropriate safeguards, the member shall decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a member in practice) or the employing organisation (in the case of a member in business).
- 100.9 A member may inadvertently breach a provision of this code. Such a breach, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided that, once the breach is discovered, it is corrected promptly and any necessary safeguards are applied.
- 100.10 Parts B and C of this code include examples that are intended to illustrate how the conceptual framework is to be applied in specific situations. The examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a member that may create threats to compliance with the fundamental principles. Therefore, it is not sufficient for a member merely to comply with the examples presented. Rather, the framework shall be applied to the particular circumstances encountered by the member.
- 100.11 When a member encounters unusual circumstances in which the application of a specific requirement of the code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the member consult with AAT on the issue.

Threats and safeguards

100.12 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise a member's compliance with the fundamental principles. A circumstance may create more than one threat, and a threat may affect compliance with more than one fundamental principle.

Threats fall into the following categories:

- (i) self-interest threats, which may occur where a financial or other interest will inappropriately influence the member's judgment or behaviour
- (ii) self-review threats, which may occur when a previous judgement needs to be re-evaluated by the member responsible for that judgement
- (iii) advocacy threats, which may occur when a member promotes a position or opinion to the point that subsequent objectivity may be compromised
- (iv) familiarity threats, which may occur when, because of a close or personal relationship, a member becomes too sympathetic to the interests of others
- (v) intimidation threats, which may occur when a member may be deterred from acting objectively by threats, whether actual or perceived.

100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. These fall into two broad categories:

- (i) safeguards created by the profession, legislation or regulation
- (ii) safeguards in the work environment.

100.14 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

- (i) educational, training and experience requirements for entry into the profession
- (ii) continuing professional development requirements
- (iii) corporate governance regulations
- (iv) professional standards
- (v) professional or regulatory monitoring and disciplinary procedures
- (vi) external review of the reports, returns, communications or information produced by a member and carried out by a legally empowered third party.

100.15 Parts B and C of this code, respectively, discuss safeguards in the work environment for members in practice and those in business.

100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organisation, include, but are not restricted to:

- (i) effective, well publicised complaints systems operated by the employing organisation, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behaviour
- (ii) an explicitly stated duty to report breaches of ethical requirements.

100.17 When a member identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the member shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgement, a member shall consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.

Ethical conflict resolution

100.18 In evaluating compliance with the fundamental principles, a member may be required to resolve a conflict in the application of fundamental principles.

100.19 When initiating either a formal or informal conflict resolution process, a member shall consider the following, either individually or together with others, as part of the resolution process:

- (i) relevant facts
- (ii) ethical issues involved
- (iii) fundamental principles related to the matter in question
- (iv) established internal procedures
- (v) alternative courses of action.

Having considered these factors, a member shall determine the appropriate course of action that is consistent with the fundamental principles identified. The member shall also weigh the consequences of each possible course of action. If the matter remains unresolved, the member may wish to consult with other appropriate persons within the firm or employing organisation for help in obtaining resolution.

100.20 Where a matter involves a conflict with, or within, an organisation, a member shall determine whether to consult with those charged with governance of the organisation, such as the Board of Directors or the Audit Committee.

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

100.22 If a significant conflict cannot be resolved, a member may consider obtaining professional advice from the relevant professional body or legal advisors on a confidential basis and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a member may suspect that he has encountered a fraud and may need to discuss confidential information in order to satisfy himself whether his suspicions are justified. In such circumstances, the member shall also consider the requirement under the anti money laundering legislation to submit a report to SOCA or to the firm's Money Laundering Reporting Officer (MLRO).

100.23 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a member shall, where possible, refuse to remain associated with the matter creating the conflict. The member shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organisation.

Section 110 Integrity

- 110.1 The principle of integrity imposes an obligation on all members to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.
- 110.2 A member shall not be associated with reports, returns, communications or other information where they believe that the information:
- (i) contains a false or misleading statement
 - (ii) contains statements or information furnished recklessly
 - (iii) omits or obscures information required to be included where such omission or obscurity would be misleading.

When a member becomes aware that they have been associated with such information they shall take steps to be disassociated from the information.

- 110.3 A member will not be considered to be in breach of paragraph 110.2 if the member provides a modified report in respect of a matter contained in paragraph 110.2.

Section 120 Objectivity

- 120.1 The principle of objectivity imposes an obligation on all members not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.
- 120.2 A member may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgement of the member shall be avoided. A member shall not perform a professional service if a circumstance or relationship biases or unduly influences their professional judgment with respect to that service.

Section 130 Professional competence and due care

- 130.1 The principle of professional competence and due care imposes the following obligations on members:
- (i) to maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service and
 - (ii) to act diligently in accordance with applicable technical and professional standards when providing professional services.
- 130.2 Competent professional service requires the exercise of sound judgement in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:
- (i) attainment of professional competence and
 - (ii) maintenance of professional competence.
- 130.3 The maintenance of professional competence requires continuing awareness and understanding of relevant technical, professional and business developments. Continuing professional development (CPD) develops and maintains the capabilities that enable a member to perform competently within the professional environment. To achieve this, Council expects all members to undertake CPD in accordance with the *AAT policy on continuing professional development*. This requires members to assess, plan, action and evaluate their learning and development needs. Members in practice should also refer to paragraph 200.3.
- 130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- 130.5 A member shall take reasonable steps to ensure that those working under the member's authority in a professional capacity have appropriate training and supervision.

- 130.6 Where appropriate, a member shall make clients, employers or other users of the professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

Section 140 Confidentiality

In general terms, there is a legal obligation to maintain the confidentiality of information which is given or obtained in circumstances giving rise to a duty of confidentiality. There are some situations where the law allows a breach of this duty.

The following sections help to explain what this means in practice for members as well as giving guidance on the standards required of members from an ethical perspective.

- 140.1 The principle of confidentiality imposes an obligation on members to refrain from:
- (i) disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose and
 - (ii) using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

Information about a past, present, or prospective client's or employer's affairs, or the affairs of clients of employers, acquired in a work context, is likely to be confidential if it is not a matter of public knowledge.

- 140.2 A member shall maintain confidentiality even in a social environment. The member shall be alert to the possibility of inadvertent disclosure, particularly in circumstances involving close or personal relations, associates and long established business relationships.
- 140.3 A member shall maintain confidentiality of information disclosed by a prospective client or employer.
- 140.4 A member shall maintain confidentiality of information within the firm or employing organisation.
- 140.5 A member shall take all reasonable steps to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality. The restriction on using confidential information also means not using it for any purpose other than that for which it was legitimately acquired.
- 140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a member and a client or employer. When a member changes employment or acquires a new client, the member is entitled to use prior experience. The member shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.
- 140.7 The following are circumstances where members are or may be required to disclose confidential information or when such disclosure may be appropriate:
- (i) where disclosure is permitted by law and is authorised by the client or the employer (or any other person to whom an obligation of confidence is owed)
 - (ii) where disclosure is required by law, for example:
 - (a) production of documents or other provision of evidence in the course of legal proceedings or
 - (b) disclosure to the appropriate public authorities (for example, HMRC) of infringements of the law that come to light
 - (c) disclosure of actual or suspected money laundering or terrorist financing to the member's firm's MLRO or to SOCA if the member is a sole practitioner
 - (iii) where there is a professional duty or right to disclose, which is in the public interest, and is not prohibited by law. Examples may include:
 - (a) to comply with the quality review of an IFAC member body or other relevant professional body
 - (b) to respond to an inquiry or investigation by AAT or a relevant regulatory or professional body

- (c) to protect the member's professional interests in legal proceedings
- (d) to comply with technical standards and ethics requirements.

This is a difficult and complex area and members are therefore specifically advised to seek professional advice before disclosing confidential information under (c) above.

- 140.8 In deciding whether to disclose confidential information, members should consider the following points:
- (i) whether the interests of all parties, including third parties, could be harmed even though the client or employer (or other person to whom there is a duty of confidentiality) consents to the disclosure of information by the member
 - (ii) whether all the relevant information is known and substantiated, to the extent that this is practicable. When the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement should be used in determining the type of disclosure to be made, if any
 - (iii) the type of communication or disclosure that may be made and by whom it is to be received; in particular, members should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

Members who are in any doubt about their obligations in a particular situation should seek professional advice.

Section 150 Professional behaviour

- 150.1 The principle of professional behaviour imposes an obligation on members to comply with relevant laws and regulations and avoid any action that may bring disrepute to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affect the good reputation of the profession. Members should note that conduct reflecting adversely on the reputation of AAT is a ground for disciplinary action under AAT's *Disciplinary Regulations*.
- 150.2 An example of this principle is that in marketing and promoting themselves and their work, members shall be honest and truthful. They may bring the profession into disrepute if they:
- (i) make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained
 - (ii) make disparaging references or unsubstantiated comparisons to the work of others.

Section 160 Taxation

- 160.1 Members performing taxation services in the UK, Ireland and in other member states of the EU will be dealing with compliance and advice on direct and indirect taxes based on income, gains, losses and profits. The administrative authorities and the legal basis for direct and indirect taxes vary substantially.
- 160.2 It is beyond the scope of this code to deal with detailed ethical issues relating to taxation services encountered by members. The guidance that follows consists therefore of general principles for members which apply to both direct and indirect taxation.
- 160.3 A member providing professional tax services has a duty to put forward the best position in favour of a client or an employer. However, the service must be carried out with professional competence, must not in any way impair integrity or objectivity and must be consistent with the law.
- 160.4 A member shall not hold out to a client or an employer the assurance that any tax return prepared and tax advice offered are beyond challenge. Instead the member shall ensure that the client or the employer is aware of the limitations attached to tax advice and services so that they do not misinterpret an expression of opinion as an assertion of fact.

- 160.5 A member shall only undertake taxation work on the basis of full disclosure by the client or employer. The member, in dealing with the tax authorities, must act in good faith and exercise care in relation to facts or information presented on behalf of the client or employer. It will normally be assumed that facts and information on which business tax computations are based were provided by the client or employer as the taxpayer, and the latter bears ultimate responsibility for the accuracy of the facts, information and tax computations. The member shall avoid assuming responsibility for the accuracy of facts, etc. outside his or her own knowledge.
- 160.6 When a member submits a tax return or tax computation for a taxpayer client or employer, the member is acting as an agent. The nature and responsibilities of the member's duties should be made clear to the client or employer, in the case of the former by a letter of engagement.
- 160.7 Tax advice or opinions of material consequence given to a client or an employer shall be recorded, either in the form of a letter or in a memorandum for the files.
- 160.8 In the case of a member in practice, acting for a client, the member shall furnish copies of all tax computations to the client before submitting them to HMRC.
- 160.9 When a member learns of a material error or omission in a tax return of a prior year, or of a failure to file a required tax return, the member has a responsibility to advise promptly the client or employer of the error or omission and recommend that disclosure be made to HMRC. If the client or employer, after having had a reasonable time to reflect, does not correct the error, the member shall inform the client or employer in writing that it is not possible for the member to act for them in connection with that return or other related information submitted to the authorities.

Funds dishonestly retained after discovery of an error or omission become criminal property and their retention amounts to money laundering by the client or employer. It is also a criminal offence in the UK for a person, including an accountant, to become concerned in an arrangement which he knows or suspects facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person. Other EU states have equivalent provisions. In each of these situations, the member shall comply with the duty to report the client's or employer's activities to the relevant authority, as explained in the following paragraph.

- 160.10 (i) A member in practice whose client refuses to make disclosure of an error or omission to HMRC, after having had notice of it and a reasonable time to reflect, is obliged to report the client's refusal and the facts surrounding it to the MLRO if the member is within a firm, or to the appropriate authority (SOCA in the UK) if the member is a sole practitioner. The member shall not disclose to the client or anyone else that such a report has been made if the member knows or suspects that to do so would be likely to prejudice any investigation which might be conducted following the report.
- (ii) An employed member in business whose employer refuses to make disclosure of an error or omission to HMRC:
- (a) where the employed member in business has acted in relation to the error or omission, he or she should report the employer's refusal and the surrounding facts, including the extent of the member's involvement, to the appropriate authority as soon as possible, as this may provide the member with a defence to the offence of facilitating the retention of criminal property
 - (b) where the employed member in business has not acted in relation to the error or omission, he or she is not obliged to report the matter to the authorities. However, if the member does make a report to the appropriate authority, such will not amount to a breach of the member's duty of confidentiality.

- (iii) Where a member in business is a contractor who is a 'relevant person' for the purposes of the Money Laundering Regulations 2007 in the UK or equivalent legislation in another EU state or other overseas jurisdictions, the member shall act in accordance with Paragraph 160.10(i) above, as though he were a member in practice. However, where the member in business is not a such relevant person, he should act in accordance with Paragraph 160.10(ii) above.

All members have a responsibility to make themselves familiar with anti money laundering and terrorist financing legislation and any guidance issued by AAT in this regard.

- 160.11 The tax authorities in many countries have extensive powers to obtain information. Members confronted by the exercise of these powers by the authorities should seek appropriate legal advice.

Part B: Members in practice

- Section 200 Introduction
- Section 210 Professional appointment
- Section 220 Conflicts of interest
- Section 230 Second opinions
- Section 240 Fees and other types of remuneration
- Section 250 Marketing professional services
- Section 260 Gifts and hospitality
- Section 270 Custody of client assets
- Section 280 Objectivity - all services
- Section 290 Independence - assurance engagements

Section 200 Introduction

- 200.1 This part of the code illustrates how the conceptual framework contained in Part A is to be applied in specific situations relevant to members in practice. It should be read in conjunction with the general guidance in Part A.

The examples in the following sections are intended to illustrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a member in practice that may create threats to compliance with the fundamental principles. Therefore, it is not sufficient for a member in practice merely to comply with the examples presented; rather, the framework must be applied to the particular circumstances faced.

- 200.2 A member in practice shall not knowingly engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of professional services in accordance with the fundamental principles laid out in this code.
- 200.3 Members who provide accounting, taxation or related consultancy services on a self-employed basis in the UK must register on AAT's Scheme for members in practice and comply with AAT's *Guidelines and regulations for members in practice*. These AAT members are known as members in practice. Although student and affiliate members (also full members who provide related self-employed services outside the UK) cannot register on the scheme, it is recommended that they comply with this code, guidelines and regulations relating to members in practice. Whether or not eligible for and required to register on AAT's Scheme for Members in Practice, all members who provide self-employed accountancy, taxation or related consultancy services are included within the definition of "members in practice" in this code.
- 200.4 Members, unless appropriately authorised by a regulatory body recognised by statutory authority, may not, amongst other things, perform the following functions in the UK:
- (i) external audit of UK limited companies and other prescribed organisations in accordance with the provisions of the Companies Acts
 - (ii) external audit of other bodies which require the services of a registered auditor
 - (iii) activities regulated by the Financial Services Authority (FSA) including the undertaking of investment business and the provision of corporate finance advice to clients
 - (iv) insolvency practice in accordance with the provisions of the relevant insolvency legislation.

Threats and safeguards

- 200.5 The nature and significance of the threats for a member in practice may differ depending on whether they arise in relation to the provision of services to a financial statement audit client, a non-financial statement audit assurance client or a non-assurance client.

- 200.6 Examples of circumstances that may create self-interest threats for a member in practice include, but are not limited to:
- (i) a financial interest in a client or jointly holding a financial interest with a client
 - (ii) undue dependence on total fees from a client
 - (iii) having a close business relationship with a client
 - (iv) concern about the possibility of losing a client
 - (v) potential employment with a client
 - (vi) contingent fees relating to an assurance engagement
 - (vii) a loan to or from an assurance client or any of its directors or officers
 - (viii) discovering a significant error when evaluating the results of a previous professional service performed by a member of staff working with or for the member.
- 200.7 Examples of circumstances that may create self-review threats include, but are not limited to:
- (i) the discovery of a significant error during a re-evaluation of the work of the member in practice
 - (ii) reporting on the operation of financial systems after being involved in their design or implementation
 - (iii) having prepared the original data used to generate records that are the subject matter of the engagement
 - (iv) a member of the assurance team being, or having recently been, a director or officer of that client
 - (v) a member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement
 - (vi) performing a service for a client that directly affects the subject matter of the assurance engagement.
- 200.8 Examples of circumstances that may create advocacy threats include, but are not limited to:
- (i) promoting shares in a listed entity when that entity is a financial statement audit client
 - (ii) acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.
- 200.9 Examples of circumstances that may create familiarity threats include, but are not limited to:
- (i) a member of the engagement team having a close or personal relationship with a director or officer of the client
 - (ii) a member of the engagement team having a close or personal relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement
 - (iii) a former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement
 - (iv) accepting gifts or preferential treatment from a client, unless the value is clearly insignificant
 - (v) long association of senior personnel with the assurance client.
- 200.10 Examples of circumstances that may create intimidation threats include, but are not limited to:
- (i) being threatened with dismissal or replacement in relation to a client engagement
 - (ii) an assurance client indicating that he will not award a planned non-assurance contract to the member in practice if the member in practice continues to disagree with the client's accounting treatment for a particular transaction
 - (iii) being threatened with litigation
 - (iv) being pressured to reduce inappropriately the quality or extent of work performed in order to reduce fees
 - (v) feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- 200.11 A member in practice may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorised. In either professional or business relationships, a member in practice shall always be on the alert for such circumstances and threats.

200.12 Examples of safeguards created by the profession, legislation or regulation are described in paragraphs 100.13 and 100.14 of Part A of this code.

200.13 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards may be either firm-wide safeguards or safeguards which are specific to one particular engagement. A member in practice shall in both cases exercise judgement to determine how to best deal with an identified threat.

200.14 Firm-wide safeguards in the work environment may include:

- (i) development of a leadership culture within the firm that stresses the importance of compliance with the fundamental principles
- (ii) development of a leadership culture within the firm that establishes the expectation that members of an assurance team will act in the public interest
- (iii) policies and procedures to implement and monitor quality control of engagements
- (iv) documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level or when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement
- (v) for firms that perform assurance engagements, documented independence policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the evaluation and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level
- (vi) documented internal policies and procedures requiring compliance with the fundamental principles
- (vii) policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients
- (viii) policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client
- (ix) using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client
- (x) policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement
- (xi) timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures
- (xii) designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system
- (xiii) advising partners and professional staff of those assurance clients and related entities from which they must be independent
- (xiv) a disciplinary mechanism to promote compliance with policies and procedures
- (xv) published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

- 200.15 Engagement specific safeguards in the work environment may include:
- (i) involving an additional member to review the work done or otherwise advise as necessary
 - (ii) consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another member
 - (iii) discussing ethical issues with those charged with governance of the client
 - (iv) disclosing to those charged with governance of the client the nature of services provided and extent of fees charged
 - (v) involving another firm to perform or re-perform part of the engagement
 - (vi) rotating senior assurance team personnel.
- 200.16 Depending on the nature of the engagement, a member in practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.
- 200.17 Safeguards within the client's systems and procedures may include:
- (i) when a client appoints a member in practice or a firm to perform an engagement, where appropriate persons other than management ratify or approve the appointment
 - (ii) the client has competent employees with experience and seniority to make managerial decisions
 - (iii) the client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements
 - (iv) the client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

Section 210 Professional appointment

Client acceptance

- 210.1 Before accepting a new client relationship, a member in practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats may be created by the characteristics and character of the client, or the nature of the client's business.
- Examples of such threats include:
- (i) the client's involvement in illegal activities (such as money laundering)
 - (ii) dishonesty
 - (iii) questionable financial reporting practices.
- 210.2 A member in practice shall evaluate the significance of any threats and if they are not clearly insignificant, safeguards shall be determined and applied as necessary to eliminate them or reduce them to an acceptable level.
- Examples of safeguards include:
- (i) obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities
 - (ii) securing the client's commitment to improve corporate governance practices or internal controls
 - (iii) ensure that any concerns are addressed by way of a letter of engagement.
- 210.3 Quite separately from assessing the threat to compliance with the fundamental principles, the member in practice shall assess and mitigate the threat of the member's services being used to facilitate money laundering or terrorist financing, in accordance with the applicable anti money laundering legislation. The Money Laundering Regulations 2007 apply when: a member enters a professional relationship with a client, which the member estimates will have an element of duration; the member acts in relation to a transaction or series of related transactions amounting to 15,000 euro or more; or there is a suspicion of money laundering.

- 210.4 The requirements of a member in practice in ensuring compliance with their obligations under the Money Laundering Regulations 2007 can be found in *AAT's Guidance on anti money laundering legislation*. Failure to comply with these requirements shall constitute a breach of the fundamental principle of professional behaviour.
- 210.5 Where it is not possible to reduce the threats to an acceptable level, a member in practice shall decline to enter into the client relationship.
- 210.6 It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements.

Engagement acceptance

- 210.7 A member in practice shall agree to provide only those services that the member in practice is competent to perform. Before accepting a specific client engagement, a member in practice shall consider whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.
- 210.8 A member in practice shall evaluate the significance of identified threats and, if they are not clearly insignificant, safeguards must be applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:
- (i) acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed
 - (ii) acquiring knowledge of relevant industries or subject matters
 - (iii) possessing or obtaining experience with relevant regulatory or reporting requirements
 - (iv) assigning sufficient staff with the necessary competencies
 - (v) using experts where necessary
 - (vi) agreeing on a realistic time frame for the performance of the engagement
 - (vii) complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.
- 210.9 When a member in practice intends to rely on the advice or work of an expert, the member in practice shall determine whether such reliance is warranted. The member in practice shall consider factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a professional appointment

- 210.10 A member in practice who is asked to replace an existing accountant, or who is considering tendering for an engagement currently held by an existing accountant, shall determine whether there are any reasons, professional or other, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. For example, there may be a threat to professional competence and due care if a member in practice accepts the engagement before knowing all the pertinent facts.
- 210.11 A member in practice shall evaluate the significance of the threats. Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances behind the proposed change so that the member in practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision as to whether or not to accept the appointment. If the identified threats are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

210.12 Such safeguards may include:

- (i) when replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted
- (ii) asking the existing accountant to provide known information on any facts or circumstances, that, in the existing accountant's opinion, the proposed accountant should be aware of before deciding whether or not to accept the engagement
- (iii) obtaining necessary information from other sources.

210.13 If the proposed accountant is unable to communicate with the existing accountant, the proposed accountant should try to obtain information about any possible threats by other means such as through inquiries of third parties or background investigations on senior management or those charged with governance of the client.

210.14 A member in practice may be asked to undertake work that is complementary or additional to the work of an existing accountant. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. In this circumstance a member in practice shall evaluate the significance of any such risks and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of a safeguard in this circumstance would be to notify the existing accountant of the proposed work which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

210.15 An existing accountant is bound by confidentiality, subject to legal exceptions. The extent to which the member in practice can, and should, as existing accountant, discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:

- (i) whether the client's permission to do so has been obtained
- (ii) the legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

In determining whether to communicate facts to a proposed accountant where he/she knows of suspects that a client is involved in money laundering or terrorist financing a member in practice shall be mindful of his responsibilities under anti money laundering legislation, particularly in relation to tipping off and prejudicing an investigation. For further information please refer to AAT's *Guidance on anti money laundering legislation*.

210.16 The existing accountant in the absence of specific instructions from the client, an existing accountant should not ordinarily volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of this code.

210.17 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a member in practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

Section 220 Conflicts of interest

220.1 A member in practice shall take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may give rise to threats to compliance with the fundamental principles. For example, a threat to objectivity may be created when a member in practice competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when a member in practice performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.

- 220.2 A member in practice shall evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether the member in practice has any business interests, or relationships with the client or a third party that could give rise to threats. If threats are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 220.3 Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily include the member in practice:
- (i) notifying the client of the firm's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances
 - (ii) notifying all known relevant parties that the member in practice is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act
 - (iii) notifying the client that the member in practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.
- 220.4 Each of the following additional safeguards should also be considered:
- (i) the use of separate engagement teams
 - (ii) procedures to prevent access to information (for example, strict physical separation of such teams, confidential and secure data filing)
 - (iii) clear code for members of the engagement team on issues of security and confidentiality
 - (iv) the use of confidentiality agreements signed by employees and partners of the firm
 - (v) regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- 220.5 Where a conflict of interest poses a threat to one or more of the fundamental principles, including objectivity, confidentiality or professional behaviour, that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the member in practice shall conclude that it is not appropriate to accept a specific engagement or that resignation from one or more conflicting engagements is required.
- 220.6 Where a member in practice has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, then they shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.

Section 230 Second opinions

- 230.1 A member in practice may be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client. This may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgement.
- 230.2 When asked to provide such an opinion, a member in practice shall evaluate the significance of the threats. Unless they are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.
- 230.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, a member in practice shall determine whether it is appropriate to provide the opinion sought, taking all the circumstances into account.

Section 240 Fees and other types of remuneration

240.1 When entering into negotiations regarding professional services, a member in practice may quote whatever fee is deemed to be appropriate. The fact that one member in practice or member of another IFAC member body may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted.

For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

240.2 The existence and significance of such threats will depend on factors such as the level of fee quoted and the services to which it applies. In view of these potential threats, safeguards shall be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards which may be adopted include:

- (i) making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee
- (ii) assigning appropriate time and qualified staff to the task.

240.3 Contingent fees are widely used for certain types of non-assurance engagements (contingent fees for non-assurance services provided to an assurance client are discussed in Section 290 of this part of the code). They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. They may give rise to a self-interest threat to objectivity. The significance of such threats will depend on factors including:

- (i) the nature of the engagement
- (ii) the range of possible fee amounts
- (iii) the basis for determining the fee
- (iv) whether the outcome or result of the transaction is to be reviewed by an independent third party.

240.4 A member in practice shall evaluate the significance of such threats and, if they are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:

- (i) an advance written agreement with the client as to the basis of remuneration
- (ii) disclosure to intended users of the work performed by the member in practice and the basis of remuneration
- (iii) quality control policies and procedures
- (iv) review by an objective third party of the work performed by the member in practice.

Commission

240.5 In certain circumstances, a member in practice may receive a referral fee or commission relating to a client. For example, where the member in practice does not provide the specific service required, a fee may be received for referring a continuing client to another member in practice or member of another IFAC member body or other expert. A member in practice may receive a commission from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

240.6 A member who receives a commission or other reward in return for the introduction of a client should be aware that if such an introduction is made in the course of a fiduciary relationship with the client, the member will be accountable for the commission or reward to the client. That means that the member will, under UK and other common law regimes, be bound to pass over the commission or reward to the client, unless the latter, having been informed of the nature and amount of the commission or reward, agrees that the member can keep it.

240.7 Accepting such a referral fee or commission may give rise to self-interest threats to objectivity and professional competence and due care.

- 240.8 A member in practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another member in practice or member of another IFAC member body but requires specialist services not offered by the existing accountant. The payment of such a referral fee may also create a self-interest threat to objectivity and professional competence and due care.
- 240.9 A member in practice shall not pay or receive a referral fee or commission, unless the member in practice has established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:
- (i) disclosing to the client any arrangements to pay a referral fee to another member in practice or member of another IFAC member body for the work referred
 - (ii) disclosing to the client any arrangements to receive a referral fee for referring the client to another member in practice
 - (iii) obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.
- 240.10 A member in practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

Section 250 Marketing professional services

- 250.1 When a member in practice solicits new work through advertising or other forms of marketing, there may be potential threats to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behaviour is created if services, achievements or products are marketed in a way that is inconsistent with that principle.
- 250.2 A member in practice shall not bring the profession into disrepute when marketing professional services. The member in practice shall be honest and truthful and should not:
- (i) make exaggerated claims for services offered, qualifications possessed or experience gained
 - (ii) make disparaging references or unsubstantiated comparisons to the work of another.

If the member in practice is in doubt whether a proposed form of advertising or marketing is appropriate, the member in practice shall consult with AAT.

Section 260 Gifts and hospitality

- 260.1 A member in practice, or a close or personal relation, may be offered gifts and hospitality from a client. Such an offer ordinarily gives rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity may be created if a gift from a client is accepted; intimidation threats to objectivity may result from the possibility of such offers being made public.
- 260.2 The existence and significance of such threats will depend on the nature, value and intent behind the offer. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider clearly insignificant are made, a member in practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the member in practice may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 260.3 If evaluated threats are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a member in practice shall not accept such an offer.

260.4 A member in practice should also consider potential criminal offences under the Bribery Act 2010 which may be relevant.

Section 270 Custody of client assets

270.1 A member in practice shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a member in practice holding such assets.

270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behaviour and there may be a self interest threat to objectivity arising from holding client assets. To safeguard against such threats, a member in practice entrusted with money (or other assets) belonging to others should:

- (i) keep such assets separately from their personal or firm's assets
- (ii) use such assets only for the purpose for which they are intended
- (iii) at all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting
- (iv) comply with all relevant laws and regulations relevant to the holding of and accounting for such assets. Members operating in the UK cannot hold investment business clients' monies as defined in the relevant UK legislation unless they are regulated by the FSA.

270.3 In addition, members in practice should be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were found to derive from illegal activities, and as a result put the member at risk of laundering the proceeds of crime. For more details refer to AAT's *Guidance on anti money laundering legislation*.

Section 280 Objectivity – all services

280.1 A member in practice shall consider, when providing any professional service, whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or directors, officers or employees of a client. For example, a familiarity threat to objectivity may be created from a close personal or business relationship.

280.2 A member in practice who provides an assurance service is required to be independent of the assurance client. Independence of mind and appearance is necessary to enable the member in practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others. Sections 290 and 291 provides specific guidance on independence requirements for members in practice when performing review and assurance engagements, and the provisions relating to this can be found in the *AAT Code of Professional Ethics: independence requirements for review and assurance engagements*.

280.3 The existence of threats to objectivity when providing any professional service will depend upon the particular circumstances of the engagement and the nature of the work that the member in practice is performing.

280.4 A member in practice shall evaluate the significance of identified threats and, if they are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:

- (i) withdrawing from the engagement team
- (ii) supervisory procedures
- (iii) terminating the financial or business relationship giving rise to the threat
- (iv) discussing the issue with higher levels of management within the firm
- (v) discussing the issue with those charged with governance of the client.

If safeguards cannot eliminate or reduce the threat to an acceptable level a member in practice shall decline or terminate the relevant engagement.

Sections 290 and 291 Independence – review and assurance engagements

- 290.1 These sections address the independence requirements for review and assurance engagements, which are assurance engagements in which a member in practice expresses a conclusion on financial statements. Such engagements comprise review engagements to report on a complete set of financial statements and a single financial statements and assurance engagements. Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a member in practice or member of another IFAC member body, a responsible party and intended users.
- 290.2 In the case of a review or assurance engagement it is in the public interest and, therefore, required by the fundamental principles set out in this code, that members of review or assurance teams, firms and, when applicable, network firms be independent of review or assurance clients. The independence requirements that apply to audit and other insurance engagements are not applicable to compilation of financial statements. However, the fundamental principles apply to all professional and business activities.
- 290.3 Members in practice shall be mindful that there are certain factors, which by their nature are a threat to independence and objectivity in any professional role and consider appropriate safeguard. These areas of risk include:
- (i) family and other personal or business relationships
 - (ii) loans
 - (iii) beneficial interests in shares and other investments
 - (iv) gifts and hospitality.
- 290.4 Independence requires

Independence of mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity and exercise objectivity and professional scepticism.

Independence in appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would be likely to conclude weighing all the facts and circumstances, that a firm's, or a member of the review or assurance team's, integrity, objectivity or professional scepticism has been compromised.

A conceptual approach to independence

- 290.5 The conceptual framework approach shall be applied by members to:
- (i) identify threats to independence
 - (ii) evaluate the significance of the threats identified and if they are not clearly insignificant
 - (iii) apply safeguards in cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

When a member determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the member shall eliminate the circumstance or relationship creating the threats or decline or terminate the review or assurance engagement.

A member shall use professional judgment in applying this conceptual framework.

- 290.6 Many different circumstances, or combination of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and specify the appropriate safeguarding action that should be taken. In addition, the nature of review or assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. The conceptual framework approach

accommodates many variations in circumstances that create threats to independence and can deter a member from concluding that a situation is permitted if it is not specifically prohibited.

- 290.7 In deciding whether to accept or continue an engagement or whether a particular individual may be a member of the review team, a firm shall identify and evaluate threats to independence. If the threats are not at an acceptable level and the decision is whether to accept an engagement or include a particular individual on the review or assurance team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.
- 290.8 Detailed guidance on the application of the conceptual framework to review and assurance engagements is contained within *the AAT Code of Professional Ethics: independence requirements for review and assurance engagements*.

Part C: Members in business

Section 300 Introduction

Section 310 Potential conflicts

Section 320 Preparation and reporting of information

Section 330 Acting with sufficient expertise

Section 340 Financial interests

Section 350 Inducements

Section 300 Introduction

- 300.1 This part of the code illustrates how the conceptual framework contained in Part A is to be applied in specific situations relevant to members in business. It should be read in conjunction with the general guidance in Part A.
- 300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of members in business. Members in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organisations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business related matters.
- 300.3 A member in business may be, for example, a salaried employee, a partner, director (whether executive or non executive) an owner manager, a volunteer or another working for one or more employing organisations. The legal form of the relationship between the member in business and the employing organisation has no bearing on the responsibility of the member to comply with the fundamental principles laid out in this code.
- 300.4 A member in business has a responsibility to further the legitimate aims of their employing organisation. This code does not seek to hinder a member in business from properly fulfilling that responsibility but consider circumstances in which conflicts may be created with the duty to comply with the fundamental principles.
- 300.5 A member in business may hold a senior position within an organisation. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A member in business is expected, therefore, to encourage an ethics-based culture in an employing organisation that emphasises the importance that senior management places on ethical behaviour.
- 300.6 A member in business shall not knowingly engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.
- 300.6 The examples presented in the following sections are intended to illustrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a member in business that may create threats to compliance with the principles. Consequently, it is not sufficient for a member in business merely to comply with the examples; rather, the framework must be applied to the particular circumstances faced.

Threats and safeguards

- 300.7 Examples of circumstances that may create self-interest threats for a member in business include, but are not limited to:
- (i) financial interests, loans or guarantees
 - (ii) receipt of incentive compensation arrangements
 - (iii) inappropriate personal use of corporate assets
 - (iv) concern over employment security
 - (v) commercial pressure from outside the employing organisation
 - (vi) commissions.

- 300.8 Circumstances that may create self-review threats include, but are not limited to, business decisions or data being subject to review and justification by the same member in business responsible for making those decisions or preparing that data.
- 300.9 When furthering the legitimate goals and objectives of their employing organisations, members in business may promote the organisation's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.
- 300.10 Examples of circumstances that may create familiarity threats include, but are not limited to:
- (i) being responsible for the employing organisation's financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity's financial reporting
 - (ii) long association with business contacts influencing business decisions
 - (iii) acceptance of a gift or preferential treatment, unless the value is clearly insignificant.
- 300.11 Examples of circumstances that may create intimidation threats include, but are not limited to:
- (i) threat of dismissal or replacement of the member in business or their close or personal relation or associate over a disagreement about the application of an accounting principle or the way in which financial information is to be reported
 - (ii) a dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.
- 300.12 Members in business may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorised. In all professional and business relationships, members in business shall always be on the alert for such circumstances and threats.
- 300.13 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraphs 100.13 and 100.14 (regarding 'Safeguards created by the profession, legislation or regulation').
- 300.14 Safeguards in the work environment include, but are not restricted to:
- (i) the employing organisation's systems of corporate oversight or other oversight structures
 - (ii) the employing organisation's ethics and conduct programmes
 - (iii) recruitment procedures in the employing organisation emphasising the importance of employing high calibre competent staff
 - (iv) strong internal controls
 - (v) appropriate disciplinary processes
 - (vi) leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner
 - (vii) policies and procedures to implement and monitor the quality of employee performance
 - (viii) timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures
 - (ix) policies and procedures to empower and encourage employees to communicate to senior levels within the employing organisation any ethical issues that concern them without fear of retribution
 - (x) consultation with another appropriate professional.
- 300.15 There may be circumstances where a member in business believes that unethical behaviour or actions by others or by him or herself cannot be avoided or will continue to occur within the employing organisation. In such circumstances, the member in business shall consider seeking legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a member in business may conclude that it is appropriate to resign from the employing organisation.

Section 310 Potential conflicts

- 310.1 A member in business shall comply with the fundamental principles. There may be times, however, when their responsibilities to an employing organisation and the professional obligations to comply with the fundamental principles are in conflict. Ordinarily, a member in business shall support the legitimate and ethical objectives established by the employer and the rules and procedures drawn up in support of those objectives. Nevertheless, where compliance with the fundamental principles is threatened, a member in business shall apply the conceptual framework approach described in Part A of this code to determine a response to the threat.
- 310.2 As a consequence of responsibilities to an employing organisation, a member in business may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organisation. A member in business may face pressure to:
- (i) act contrary to law or regulation
 - (ii) act contrary to technical or professional standards
 - (iii) be a party to or facilitate management strategies for unethical or illegal earnings
 - (iv) lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
 - (a) the internal or external auditors of the employing organisation
 - (b) regulators
 - (v) issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:
 - (a) the financial statements
 - (b) tax compliance
 - (c) legal compliance
 - (d) reports required by securities regulators.
- 310.3. A member in business shall evaluate the significance of threats arising from such pressures, such as intimidation threats and, if they are not clearly insignificant, shall consider safeguards and apply as necessary to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:
- (i) obtaining advice where appropriate from within the employing organisation, an independent professional advisor or a relevant professional body
 - (ii) the existence of a formal dispute resolution process within the employing organisation
 - (iii) seeking legal advice.

Section 320 Preparation and reporting of information

- 320.1 Members in business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organisation. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management discussion and analysis and the management letter of representation provided to the auditors as part of an audit of financial statements. A member in business shall prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.
- 320.2 A member in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organisation shall be satisfied that those financial statements are presented in accordance with the applicable financial reporting standards.
- 320.3 A member in business shall take reasonable steps to maintain information for which the member in business is responsible in a manner that
- (i) describes clearly the true nature of business transactions, assets or liabilities
 - (ii) classifies and records information accurately and in a timely and proper manner
 - (iii) represents the facts accurately and completely in all material respects.
- 320.4 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may be created as a result of pressure to be become associated with misleading information. This pressure may arise externally or by the possibility of personal gain and by the member's own actions or by the actions of others.
- 320.5 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The member in business shall evaluate the significance of the threats and, if they are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include consultation with superiors within the employing organisation, for example, the audit committee or other body responsible for governance, or with a relevant professional body.
- 320.6 Where it is not possible to reduce the threat to an acceptable level, a member in business shall refuse to be or remain associated with information they consider is or may be misleading. A member in business may have been unknowingly associated with misleading information. Upon becoming aware of this, the member in business shall take steps to be disassociated from that information. In determining whether there is a requirement to report, the member in business may consider obtaining legal advice. In addition, the member in business may consider whether to resign.

Section 330 Acting with sufficient expertise

- 330.1 The fundamental principle of professional competence and due care requires that a member in business shall only undertake significant tasks for which the member in business has, or can obtain, sufficient specific training or experience. However, if the member in business has adequate support, usually in the form of supervision from an individual who has the necessary training and experience, then it may be possible to undertake appropriate significant tasks. A member in business shall not intentionally mislead an employer as to the level of expertise or experience possessed and a member in business shall seek appropriate expert advice and assistance when required.

- 330.2 Circumstances that create a threat to the member in business performing duties with the appropriate degree of professional competence and due care include:
- (i) insufficient time for properly performing or completing the relevant duties
 - (ii) incomplete, restricted or otherwise inadequate information for performing the duties properly
 - (iii) insufficient experience, training and/or education
 - (iv) inadequate resources for the proper performance of the duties.
- 330.3 The significance of such threats will depend on factors such as the extent to which the member in business is working with others, their relative seniority in the business and the level of supervision and review applied to the work. The member in business shall evaluate the significance of the threats and, if they are not clearly insignificant, shall consider and apply safeguards as necessary to eliminate them or reduce them to an acceptable level. Safeguards that may be considered include:
- (i) obtaining additional advice or training
 - (ii) ensuring that there is adequate time available for performing the relevant duties
 - (iii) obtaining assistance from someone with the necessary expertise
 - (iv) consulting, where appropriate, with:
 - (a) superiors within the employing organisation
 - (b) independent experts
 - (c) the relevant professional body.
- 330.4 Where threats cannot be eliminated or reduced to an acceptable level, members in business shall determine whether to refuse to perform the duties in question. If the member in business determines that refusal is appropriate, the reasons for doing so shall be clearly communicated to the appropriate parties.
- 330.5 Before resigning it is strongly recommended that members obtain appropriate legal advice.

Section 340 Financial interests

- 340.1 Members in business may have financial interests, or may know of financial interests of close or personal relations or associates, that could, in certain circumstances, give rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include, but are not limited to situations where the member in business or close or personal relation or associate:
- (i) holds a direct or indirect financial interest in the employing organisation and the value of that financial interest could be directly affected by decisions made by the member in business
 - (ii) is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the member in business
 - (iii) holds, directly or indirectly, share options in the employing organisation, the value of which could be directly affected by decisions made by the member in business
 - (iv) holds, directly or indirectly, share options in the employing organisation which are, or will soon be, eligible for conversion or
 - (v) may qualify for share options in the employing organisation or performance related bonuses if certain targets are achieved.
- 340.2 In evaluating the significance of such a threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, members in business shall evaluate the nature of the financial interest. This includes evaluating the significance of the financial interest and whether it is direct or indirect. Clearly, what constitutes a significant or valuable stake in an organisation will vary from individual to individual, depending on personal circumstances.

- 340.3 If threats are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:
- (i) policies and procedures for a committee independent of management to determine the level or form of remuneration of senior management
 - (ii) disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organisation, in accordance with any internal policies
 - (iii) consultation, where appropriate, with superiors within the employing organisation
 - (iv) consultation, where appropriate, with those charged with the governance of the employing organisation or relevant professional bodies
 - (v) internal and external audit procedures
 - (vi) up to date education on ethical issues and the legal restrictions and other regulations around potential insider trading.
- 340.4 A member in business shall neither manipulate information nor use confidential information for personal gain.

Section 350 Inducements

Receiving offers

- 350.1 A member in business or their close or personal relation may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.
- 350.2 Offers of inducements may create threats to compliance with the fundamental principles. When a member in business or an immediate or close family member is offered an inducement, the member in business shall evaluate the situation. Self-interest threats to objectivity or confidentiality are created where an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behaviour or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the member in business or their close or personal relation.
- 350.3 The existence and significance of such threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, having knowledge of all relevant information, would consider the inducement insignificant and not intended to encourage unethical behaviour, then a member in business may conclude that the offer is made in the normal course of business and may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 350.4 If evaluated threats are not clearly insignificant, safeguards shall be considered and applied as necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a member in business shall not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, the member in practice shall adopt additional safeguards. A member in business shall assess the risk associated with all such offers and consider whether the following actions should be taken:
- (i) where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organisation
 - (ii) inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; a member in business shall, however, consider seeking legal advice before taking such a step
 - (iii) advise close or personal relations or associates of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example as a result of their employment situation

- (iv) inform higher levels of management or those charged with governance of the employing organisation where close or personal relations are employed by competitors or potential suppliers of that organisation.

The attention of the members is drawn to the Bribery Act 2010 as referenced in section 260.4 above.

Making offers

- 350.5 A member in business may be in a situation where the member in business is expected to, or is under other pressure to, offer inducements to influence the judgement of another individual or organisation, influence a decision-making process or obtain confidential information.
- 350.6 Such pressure may come from within the employing organisation, for example, from a colleague or superior. It may also come from an external individual or organisation suggesting actions or business decisions that would be advantageous to the employing organisation possibly influencing the member in business improperly.
- 350.7 A member in business shall not offer an inducement to improperly influence the professional judgement of a third party.
- 350.8 Where the pressure to offer an unethical inducement comes from within the employing organisation, the member shall follow the principles and guidance regarding ethical conflict resolution set out in Part A of this code.

Any questions?

Call our Ethics Advice line on **0845 863 0787** (UK) or **+44 (0)20 7397 3014** (outside UK). Lines are open 09.00 to 17.00 (UK time) Monday to Friday.

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